



**iss**group

**ISS GROUP LIMITED**

(ABN 27 109 443 852)

**ANNUAL REPORT**

30 JUNE 2011

## CORPORATE DIRECTORY

### DIRECTORS

Mr Evan Cross - Chairman  
Mr Richard Pang - Managing Director  
Mr Shane Attwell - Non Executive Director  
Mr Ian Spence - Non Executive Director

### AUDITORS

HLB Mann Judd  
Chartered Accountants  
Level 4, 130 Stirling Street  
Perth WA 6000  
Tel: +61 8 9227 7500  
Fax: +61 8 9227 7533

### COMPANY SECRETARY

Mr Frank Zenke

### REGISTERED AND PRINCIPAL OFFICE

Suite 1, 40 Hasler Road  
Osborne Park WA 6017  
Tel: +61 8 9241 0300  
Fax: +61 8 9242 8121

### SHARE REGISTRY

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Nedlands WA 6009  
Tel: +61 8 9389 8033  
Fax: +61 8 9389 7871

### WEBSITE

[www.issgroup.com.au](http://www.issgroup.com.au)

### SOLICITORS

Steinepreis Paganin Lawyers & Consultants  
Level 4, Next Building  
16 Milligan Street  
Perth WA 6000

### CORPORATE ADVISER

Greenday Corporate Pty Ltd  
9 Bowman Street  
South Perth WA 6151  
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## CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board of ISS Group Limited, I am pleased to report that our Company remained profitable through a very challenging year.

The Company has reported a net profit for 2011 of \$1.1 million (2010 - \$3.6 million). While this result is down on 2010, we have weathered the significant strengthening of the Australian Dollar (AUD) against all our trading currencies, strong industry competition and the costs of significant structural reform within the organisation to ensure we are able to operate profitably in a challenging and at times uncertain global market. What is most pleasing and important to note, is that all regions reported profits for the current year. There has been a strong push for all the regional offices to become self-sustaining and we are beginning to see positive results from these changes. During the year management also implemented a new five year plan as the foundation to revenue and profit growth in all regions over the long term.

The IT market remains highly competitive and while the company improved the products and services to existing clients, breaking into new business is slow and extremely difficult. Having said that, since the end of the financial year, ISS Group has concluded its first contract in the water desalination market, this is an exciting break through and is the product of dedication, flexibility and determination to increase revenue and diversify into new markets.

The USA regional office provides essential management and support to our partner Schlumberger, who operate primarily out of USA. The requirement for on the ground services necessitates the need for this office and their profit is testament to their professionalism and the service that is provided by them. The UK regional office has grown into a solid business unit and continued profits and modest growth are forecast in the short to medium term in this highly competitive market.

Australia and Asia continue to remain the regions with the greatest growth potential. The Business Development team is focusing on increasing new business in these regions, as well as providing an aggressive solution based service to existing clients. The entry into the water desalination market, as previously mentioned, is the first success of the new business strategy that has been formulated. Increased revenue is a necessity not an option and I am confident the management team will deliver on the five year strategic plan.

We enter the 2012 financial year with a strong and determined management team and a skilled, hardworking and dedicated group of employees. On behalf of shareholders and the Board I would like to thank our staff for their outstanding contribution to the success of ISS Group and supporting its vision to become the "Employer of Choice" in the industry.

I also take the opportunity to congratulate Mr Richard Pang on his recently appointment as Managing Director. Richard is the driving force behind the development of the five year strategic plan and is committed to its implementation and success. Richard succeeds the Founder and former Managing Director of ISS Group, Mr Shane Attwell who retired from his executive duties on 30 June 2011. As many shareholders will be aware, Shane founded the ISS Group in 1995 and listed the company on the ASX in 2004. His vision and leadership in IT over the past 16 years is to be admired and congratulated. On behalf of the staff, board and shareholders I would like to record our sincere thanks and appreciation to Shane for his vision for ISS Group and his ability to create a global software company, from a one room office in Perth, Western Australia all those years ago. The foundations laid by Shane provide a very solid base for Richard and his management team to take ISS Group to the next level.

ISS Group, as always, maintains a strong working capital position with no operating debt. Though conservative, the Board feels that this is necessary and particularly warranted in the current uncertain economic climate.

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Given the strong financial position, the Company intends to continue its position of paying dividends. The Company paid an interim dividend of 0.5 cent paid in March 2011 and has declared a 0.65 cents dividend (unfranked) for the period to June 30 2011.

On behalf of The Board, I would like to thank the shareholders for their support in a difficult year both at the macro level and for ISS Group. We look forward to providing regular updates in 2011 which reflect the results of the strategic plan and efforts made by management and employees alike.



Yours truly,  
Evan Cross  
Chairman

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## DIRECTORS' REPORT

The Board of Directors of ISS Group Limited has pleasure in presenting its annual report in respect of the financial year ended 30 June 2011.

### Directors

The names, qualifications and experience of directors in office during the financial year and until the date of this report are as follows:

Mr Evan Cross  
B.Bus, C.A.

**Position:** Director — Non-Executive Chairman (appointed 8 June 2004)

**Experience:**

Mr Cross is a member of the Institute of Chartered Accountants in Australia. He has held a number of senior positions in commerce and industry with particular focus on corporate finance and has international finance experience having worked in the investment banking industry in Australia and the U.S.

Mr Cross is a co-founder and Executive Director of the private investment firm Greenday Corporate Pty Ltd.

**Other current directorships:**

None.

**Former directorships in last 3 years:**

Advanced Ocular Systems Limited.

**Special responsibilities:**

Chairman of the Board

Member of the Audit Committee

Member of the Remuneration Committee

Mr Richard Pang

**Position:** Managing Director (appointed 1 July 2011)

**Experience:**

Mr Pang, an Australian, currently resides in Singapore. He commenced his career with ISS Group in 2002, starting as a product developer in Australia and progressed through project management, to Business Development Manager of Asia/Middle East, to Regional Manager for Asia/Middle East. After taking the Asia/Middle East branch from "start up" through to the Group's most profitable branch, Mr Pang was appointed to his current role as Group Chief Executive Officer and Managing Director.

Mr Pang holds a Bachelor of Computer Science degree from Edith Cowan University.

**Other current directorships:**

None

**Former directorships in last 3 years:**

None

**Special responsibilities:**

Managing Director and Chief Executive Officer

## DIRECTORS' REPORT

|   |   |
|---|---|
| <p>Mr Ian Spence<br/>B.Com, C.A.</p>      | <p><b>Position:</b> Director — Independent and Non-Executive (appointed 30 July 2004)</p> <p><b>Experience:</b><br/>Mr Spence, a New Zealander, currently resides in Singapore. He has been and is currently a director of a number of public and private companies in Australia and South East Asia. Mr Spence holds a Bachelor of Commerce degree and is a qualified Accountant.</p> <p><b>Other current directorships:</b><br/>Non-executive director - IFS Construction Services Limited (appointed 7 July 2009)</p> <p><b>Former directorships in last 3 years:</b><br/>None</p> <p><b>Special responsibilities:</b><br/>Chairman of the Audit Committee<br/>Chairman of the Remuneration Committee</p>            |
| <p>Mr Shane Attwell<br/>B.Eng, GD Bus</p> | <p><b>Position:</b> Director - Non-executive (appointed 5 April 2004)</p> <p><b>Experience:</b><br/>Mr Attwell founded ISS in 1995. Mr Attwell has 20 years experience with process plant information systems and optimisation. Seven of these years were spent abroad developing technologies in the U.S., Canada, South America, Europe, Africa and the Middle East.</p> <p>Mr Attwell holds a Bachelor of Engineering degree and a Graduate Diploma in Business, both from Curtin University.</p> <p><b>Other current directorships:</b><br/>None</p> <p><b>Former directorships in last 3 years:</b><br/>Managing Director of ISS Group (retired 30 June 2011)</p> <p><b>Special responsibilities:</b><br/>None</p> |

Directors have been in office since the start of the financial year and to the date of this report unless otherwise stated.

### Company Secretary

|                       |  |
|-----------------------|--|
| <p>Mr Frank Zenke</p> | <p><b>Position:</b> Company Secretary (appointed 27 February 2008)</p> <p><b>Experience:</b> Mr Zenke has over 25 years experience in the software industry covering private, commercial and government sectors. For the last ten years, he has been employed in senior commercial roles in the Middle East. He brings to ISS Group a wealth of knowledge in Middle Eastern affairs, international finance and the management of the corporate affairs of publicly listed companies.</p> |
|-----------------------|--|

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## DIRECTORS' REPORT

### Interests in shares and options of the company

The following relevant interests in shares and options of the Company were held by directors as at the date of this report.

| <i>Directors</i> | <i>No of fully paid ordinary shares</i> | <i>No of options over ordinary shares</i> |
|------------------|---|---|
| Mr Evan Cross    | 3,510,222                               | -   |
| Mr Shane Atwell  | 30,988,940                              | -   |
| Mr Ian Spence    | 221,857                                 | -   |
| Mr Richard Pang  | 3,578,003                               | -   |

No share options were granted to directors or to the most highly remunerated officers during or since the end of the financial year as part of their remuneration.

There are no outstanding share options held by directors or the most highly remunerated officers as at the date of this report.

No ordinary shares were issued by the company during or since the financial year as a result of the exercise of options.

At the date of the report there were no unissued ordinary shares of the Company under option.

### Principal activities

The principal activities of the Group during the course of the year was the implementation of production operations solutions, and the continued development of the ISS Product Suite in line with our clients requirements for use in the resources, manufacturing, utilities and fast moving consumer goods industries.

### Operations Report

ISS Group recovered from a slow Q1 in 2010/11 to modestly outperform 2009/10 revenues for the remaining three quarters. This was achieved despite the strengthening Australian dollar and its impact on Group revenues. The Group's focus on a clear sales model, long term customer engagement philosophy, and global operational efficiencies resulted in a net profit of AUD \$1.1 million.

The Australian Dollar (AUD) strengthened against all the currencies ISS Group trades in. In particular, our major trading currency, the United States Dollar (USD) lost 26% against the AUD over the financial year. Accordingly, the strengthening of the AUD impacted directly on revenues and profit. We estimate that the consolidated impact of the strengthening AUD translated into a reduction in revenue of \$948 thousand AUD. The Group's total revenues decreased to \$17.6 million from \$18.8 million in the previous year, representing a fall of 6.1%. USD denominated sales revenue accounted for 52% of total revenue (Comparative 2009/10 38.0%) and hence accounted for the majority of the revenue fall in foreign currency.

Total costs have increased to \$16.2 million (2009/10 \$15.4 million) which represents an increase of 5.1%. The increase in total costs is attributable to foreign exchange rate losses of \$0.95 million (2009/10 \$0.52 million). Given the tough global conditions, ISS increased its sales activities and resulting costs over this period.

Research and Development costs were maintained, which has allowed the company to continue enhancing our products and remain competitive in the market. ISS Group continued to focus on providing high quality solutions and products to existing and new clients alike.

In April 2011, the management team developed a five year strategic plan, commencing with the assessment of the current position and re-defining the company's mission, values and importantly, strategic direction:

**Mission:**

“At ISS Group, our mission is to provide best in class software based solutions for production operations.”

**Vision:**

“At ISS Group, our vision is to be the chosen solution provider for companies operating in our target domain markets across the globe.”

We believe the strategic plan will allow ISS to increase revenues and profit via a larger and optimally structured sales organisation, development of our staff and staff retention, and increased efficiencies on both external and internal projects. The three core items of the strategic plan are:

- Business Development
- Employer of Choice
- Knowledge Management

A major focus has been, and continues to be, the implementation of new policies and procedures to support the growth of our sales organisation. Management has prioritised the hiring of new sales personnel to increase the focus on sales to new and existing clients.

The sales pipeline remains strong with the recent announcement of the TDJV Desalination project and continued projects for our existing customers. This has allowed the group to continue to grow project implementation resources in line with delivery commitments. The ISS global head count has increased 10% to 112 since March 2011 with the majority of the resources hired in the Australian region. This aligns with our goal of increasing revenues in Australia to capitalise on the resource boom. This will also reduce our sensitivity to foreign exchange fluctuations and improve our local delivery capability both in terms of capacity and skill base.

## DIRECTORS' REPORT

### Operations Report (continued)

#### Profit breakdown:

| Year Ending 30 June                         | 2011             | 2010             | Percent<br>Change |
|---|------------------|------------------|-------------------|
|   | Actual \$ ('000) | Actual \$ ('000) |                   |
| Project revenue                             | 9,205            | 9,807            | 6%↓               |
| License revenue                             | 4,294            | 4,856            | 12% ↓             |
| Maintenance and support                     | 3,584            | 3,791            | 5%↓               |
| Other Income                                | 548              | 318              | 72%↑              |
| Total revenue                               | 17,631           | 18,772           | 6%↓               |
| Cost of revenue (labour)                    | 9,074            | 9,639            | 6%↓               |
| Selling, general & administrative expenses  | 4,171            | 3,154            | 32%↑              |
| Product development expensed                | 1,874            | 1,996            | 6%↓               |
| Operating profit                            | 2,512            | 3,983            | 37%↓              |
| Non cash expenses                           |                  |                  |                   |
| Depreciation                                | 335              | 423              | 21%↓              |
| Allowance for doubtful debts                | (175)            | (280)            | 38%↓              |
| Foreign exchange differences                | 953              | 519              | 84%↑              |
| Total non cash expenses                     | 1,113            | 662              | 68%↑              |
| Profit / (loss) before tax                  | 1,399            | 3,321            | 58%↓              |
| Income tax (expense) / benefit              | (277)            | 319              | 187%↑             |
| Net profit / (loss) attributable to members | 1,122            | 3,640            | 69%↓              |

#### Profit breakdown By Region (after tax):

|                          | 2011         | 2010         | Change |
|--------------------------|--------------|--------------|--------|
| Australia                | \$ 292,932   | \$ 4,652,594 | 92% ↓  |
| Asia                     | \$ 225,473   | \$ (325,865) | 169% ↑ |
| Europe                   | \$ 174,546   | \$ (292,140) | 160% ↑ |
| America                  | \$ 149,077   | \$ (394,995) | 138% ↑ |
| Consolidation adjustment | \$ 279,514   | -            | -      |
| TOTAL                    | \$ 1,121,542 | \$ 3,639,594 | 67% ↓  |

## **DIRECTORS' REPORT**

### **Operations Report (continued)**

#### **Market and Industry Outlook**

The market outlook for ISS Group products remains positive, with large capital projects in oil, gas and minerals continuing globally. Our engagement with existing customers and their expansion of assets and development of new assets is also providing a large number of opportunities. In addition we are seeing industry diversification, such as water desalination, as areas of strong opportunity for our products.

With our strategic plan becoming established, ISS is positioning itself to take advantage of the opportunities that are presenting themselves locally and in our regional offices. On the domestic front, ISS is well entrenched in the Australian market which alone represents one of the world's most productive and diversified oil, gas and mineral regions. With multi-billion dollar capital projects in the "pipeline", these industry sectors continue to be buoyant and we see significant growth opportunities by leveraging our proven relationships and capabilities across the region. ISS is also expanding into the utilities markets, with projects in both power and water in recent times. We are especially encouraged about these new markets as Global Warming and other environmental issues have necessitated a strong focus on efficiency and productivity, areas that ISS can participate in.

#### **Conclusion**

ISS is maintaining its focus on supporting and further developing relationships with existing customers, which include some of the world's largest resources companies. In parallel, the Company is continuing to develop the infrastructure necessary to build a presence as a global player in the resources software sector.

At the time of issuing this report, the global financial markets have again become unstable with questions concerning the capacity for growth in Europe and the US. These events will no doubt result in some hesitation in the commencement of new resource projects and decision delays in already commenced projects globally. While ISS Group has taken pro-active steps to be more aggressive in sales and broaden its industry reach, there is no doubt that current global uncertainty will continue to have an impact on project decision making and hence, the awarding of new contracts. Notwithstanding these uncertainties, the Board of ISS Group approaches the 2012 year with cautious optimism.

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## DIRECTORS' REPORT

### Major ASX Announcements

|            |   |
|------------|---|
| 23/08/2011 | Letter to Shareholders – Dividend Details                   |
| 10/08/2011 | Letter to Shareholders – Becoming a Substantial Shareholder |
| 01/08/2011 | Letter to Shareholders – Desalination Project Contract      |
| 13/07/2011 | Letter to Shareholders – New Projects Update                |
| 08/06/2011 | Director Changes and Appointments                           |
| 01/06/2011 | Letter to Shareholders – ISS Share Buy Back Cessation       |
| 01/06/2011 | Final share buy-back notice – Appendix 3F                   |
| 13/05/2011 | Q3 Results for 2011   |
| 15/03/2011 | CEO Roadshow March 2011                                     |
| 24/02/2011 | Half Yearly Report and Accounts for ISS Dec 2010            |
| 10/02/2011 | Q2 Results for 2011   |
| 18/01/2011 | ISS General Update Jan 2011                                 |
| 10/01/2011 | ISS Staff Share Trading Policy                              |
| 18/11/2010 | Announcement of buy-back Appendix 3C                        |
| 26/10/2010 | Letter to Shareholders – Q1 Market Update                   |

### Significant Changes in State of Affairs

There have been no significant changes in the state of affairs of the Group to the date of this report.

### Significant Events After Balance Date

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

### Environmental Regulations

The company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

### Likely developments and expected results of operations

Comments on expected results of the operations of the company are included in this report under the review of operations.

Disclosure of information regarding likely developments in the operations of the company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the company. Accordingly, this information has not been disclosed in this report.

### Dividends

Dividends paid to members during the financial year were as follows:

|   | 2011<br>\$ | 2010<br>\$ |
|---|------------|------------|
| Final dividend for the year ended 30 June 2010 of \$0.005 per share paid on 29 October 2010 (fully franked)               | 676,041    | -          |
| Interim dividend for the year ended 30 June 2011 of \$0.005 per share paid on 15 March 2011 (partially franked at 85.34%) | 686,542    | -          |

The directors have proposed a final unfranked ordinary dividend for the year ended 30 June 2011 of 0.65 cents per share payable on 16 September 2011.

## **DIRECTORS' REPORT**

### **Remuneration Report (audited)**

This report outlines the remuneration arrangements in place for the key management personnel of ISS Group Limited for the financial year ended 30 June 2011. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

#### **Remuneration Policy**

The Board of Directors of ISS Group Limited is responsible for determining and reviewing compensation arrangements for directors and the executive team. Remuneration levels for executives are competitively set to attract the most qualified and experienced directors and senior executive officers, in the context of prevailing market conditions, particular experience of the individual concerned and the overall performance of the company, with the objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The assistance of an external consultant or remuneration surveys is used where necessary.

The board of ISS Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits. The remuneration committee reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive director and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Securities given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued based on the Black and Scholes option pricing model.

Each of the non-executive directors receives a fixed fee for their services as directors. Non-executive directors' fees not exceeding an aggregate of \$200,000 per annum have been approved by the Company in a general meeting. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievements of certain key performance indicators.

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## DIRECTORS' REPORT

### Remuneration Report (Continued)

#### Details of Remuneration for Year Ended 30 June 2011

(This information has been audited)

The remuneration for each director and for key management personnel of the Group receiving the highest remuneration during the year was as follows:

|  | Short-term benefits        |                       |                   | Post employment              | Share based payments | Total            | S300A(1)(e)(i) proportion of remuneration performance related % |
|--|----------------------------|-----------------------|-------------------|------------------------------|----------------------|------------------|---|
|  | Salary , Fees & Commission | Bonus <sup>(ii)</sup> | Non-cash benefits | Superannuation Contributions | Share Options        |                  |   |
| Directors  | \$                         | \$                    | \$                | \$                           | \$                   | \$               |   |
| Mr E Cross – Non-executive Chairman  | 71,400                     | -                     | -                 | 6,426                        | -                    | 77,826           | -   |
| Mr I Spence – Non-executive Director                                       | 50,400                     | -                     | -                 | -                            | -                    | 50,400           | -   |
| Mr S Attwell – Managing Director (from 1 July 2011 Non-executive Director) | 150,000                    | -                     | -                 | 13,500                       | -                    | 163,500          | -   |
| <b>Other key management personnel</b>                                      |                            |                       |                   |                              |                      |                  |   |
| Richard Pang (from 1 July 2011 appointed Managing Director)                | 298,559                    | -                     | 94,018            | -                            | -                    | 392,577          | -   |
| Frank Zenke  | 165,770                    | 59,367                | 33,090            | 14,919                       | -                    | 273,146          | 22%   |
| Jeremy Smith   | 181,393                    | 16,772                | 106,663           | -                            | -                    | 304,828          | 6%  |
| John Purnell   | 160,716                    | 21,979                | 682               | 8,036                        | -                    | 191,413          | 11%   |
| Lee Timmins  | 157,692                    | -                     | -                 | -                            | -                    | 157,692          | -   |
| Tony Hanavan (resigned 6 August 2010)                                      | 90,085 <sup>(i)</sup>      | -                     | -                 | 4,057                        | -                    | 94,142           | -   |
| Cliff Lang (from 7 August 2010)  | 146,666                    | 23,200                | -                 | 13,200                       | -                    | 183,066          | 13%   |
| <b>Total Remuneration</b>  | <b>1,472,681</b>           | <b>121,318</b>        | <b>234,453</b>    | <b>60,138</b>                | <b>-</b>             | <b>1,888,590</b> |   |

(i) Includes termination benefits of \$45,000.

(ii) Bonus is based on individual performance and contribution for the 2009-2010 financial year.

## DIRECTORS' REPORT

### Remuneration Report (Continued)

#### Details of Remuneration for Year Ended 30 June 2010

(This information has been audited)

The remuneration for each director and for key management personnel of the Group receiving the highest remuneration during the year was as follows:

|   | Short-term benefits        |                |                   | Post employment              | Share based payments | Total            | S300A(1)(e)(i) proportion of remuneration performance related % |
|---|----------------------------|----------------|-------------------|------------------------------|----------------------|------------------|---|
|   | Salary , Fees & Commission | Bonus (i)      | Non-cash benefits | Superannuation Contributions | Share Options        |                  |   |
| Directors   | \$                         | \$             | \$                | \$                           | \$                   | \$               |   |
| Mr E Cross – Non-executive Chairman                               | 68,000                     | -              | -                 | 6,120                        | -                    | 74,120           | -   |
| Mr I Spence – Non-executive Director                              | 48,000                     | -              | -                 | -                            | -                    | 48,000           | -   |
| Mr S Attwell – Managing Director                                  | 293,776                    | -              | 15,533            | 26,440                       | -                    | 335,749          | -   |
| Mr J Yeudall – Non-executive Chairman (resigned 7 September 2009) | 15,375                     | -              | -                 | 1,384                        | -                    | 16,759           | -   |
| <b>Other key management personnel</b>                             |                            |                |                   |                              |                      |                  |   |
| Richard Pang  | 177,362                    | 194,523        | 90,920            | -                            | -                    | 462,805          | 42%   |
| Frank Zenke   | 185,015                    | -              | 33,091            | 19,630                       | -                    | 237,736          | -   |
| Jeremy Smith  | 198,875                    | -              | 116,380           | 10,600                       | -                    | 325,855          | -   |
| John Purnell  | 157,565                    | -              | 1,340             | 7,878                        | -                    | 166,783          | -   |
| Lee Timmins   | 158,712                    | -              | -                 | -                            | -                    | 158,712          | -   |
| Tony Hanavan (from 8 February 2010)                               | 119,231                    | -              | -                 | 10,731                       | -                    | 129,962          | -   |
| <b>Total Remuneration</b>   | <b>1,421,911</b>           | <b>194,523</b> | <b>257,264</b>    | <b>82,783</b>                | <b>-</b>             | <b>1,956,481</b> |   |

(i) Bonus is based on individual performance and contribution.

## DIRECTORS' REPORT

### Remuneration Report (Continued)

#### Equity instrument disclosures relating to key management personnel

##### (i) Shareholdings:

| Year ended 30 June 2011  | Balance<br>01.07.10 | Received as<br>Remuneration | Acquired /<br>(disposed) on<br>market | Other changes    | Balance<br>30.6.11 |
|--|---------------------|-----------------------------|---------------------------------------|------------------|--------------------|
| <b>Directors</b>   |                     |                             |                                       |                  |                    |
| Mr E Cross – Non-executive Chairman                                      | 3,510,222           | -                           | -                                     | -                | 3,510,222          |
| Mr I Spence – Non-executive Director                                     | 221,857             | -                           | -                                     | -                | 221,857            |
| Mr S Attwell–Managing Director (from 1 July 2011 Non-Executive Director) | 30,988,940          | -                           | -                                     | -                | 30,988,940         |
| <b>Other key management personnel</b>                                    |                     |                             |                                       |                  |                    |
| Richard Pang (from 1 July 2011 appointed Managing Director)              | 1,078,003           | -                           | -                                     | 2,500,000        | 3,578,003          |
| Frank Zenke  | 496,743             | -                           | -                                     | -                | 496,743            |
| Jeremy Smith   | 1,000,002           | -                           | -                                     | -                | 1,000,002          |
| John Purnell   | -                   | -                           | -                                     | -                | -                  |
| Lee Timmins  | -                   | -                           | -                                     | -                | -                  |
| Tony Hanavan (resigned 6 August 2010)                                    | 25,000              | -                           | (25,000)                              | -                | -                  |
| Cliff Lang (from 7 August 2010)  | 11,000              | -                           | 6,600                                 | -                | 17,600             |
| <b>Total</b>   | <b>37,331,767</b>   | <b>-</b>                    | <b>(18,400)</b>                       | <b>2,500,000</b> | <b>39,813,367</b>  |

## DIRECTORS' REPORT

### Remuneration Report (Continued)

#### Equity instrument disclosures relating to key management personnel

(i) Shareholdings:

| Year ended 30 June 2010   | Balance<br>01.07.09 | Received as<br>Remuneration | Acquired /<br>(disposed) on<br>market | Other changes  | Balance<br>30.6.10 |
|---|---------------------|-----------------------------|---------------------------------------|----------------|--------------------|
| <b>Directors</b>  |                     |                             |                                       |                |                    |
| Mr E Cross – Non-executive Chairman                                 | 3,510,222           | -                           | -                                     | -              | 3,510,222          |
| Mr S Attwell–Managing Director                                      | 30,988,940          | -                           | -                                     | -              | 30,988,940         |
| Mr I Spence – Non-executive Director                                | 221,857             | -                           | -                                     | -              | 221,857            |
| Mr J Yeudall– Non Executive Chairman<br>(resigned 7 September 2009) | 782,851             | -                           | -                                     | -              | 782,851            |
| <b>Other key management personnel</b>                               |                     |                             |                                       |                |                    |
| Richard Pang  | 828,003             | -                           | -                                     | 250,000^       | 1,078,003          |
| Frank Zenke   | 488,409             | -                           | (75,000)                              | 83,334^        | 496,743            |
| Jeremy Smith  | 833,335             | -                           | -                                     | 166,667^       | 1,000,002          |
| John Purnell  | -                   | -                           | -                                     | -              | -                  |
| Lee Timmins   | -                   | -                           | -                                     | -              | -                  |
| Tony Hanavan (from 8 February 2010)                                 | 25,000              | -                           | -                                     | -              | 25,000             |
| <b>Total</b>  | <b>37,678,617</b>   | <b>-</b>                    | <b>(75,000)</b>                       | <b>500,001</b> | <b>38,103,618</b>  |

^ converted from shares in subsidiary pursuant to shareholder agreements

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## DIRECTORS' REPORT

### Remuneration Report (Continued)

#### (ii) Option holdings

At 30 June 2011 there were no options outstanding, and no options were issued or converted in the period (30 June 2010 NIL).

#### Options Issued as Part of Remuneration for the Year Ended 30 June 2011

No options were granted as part of remuneration for the year ended 30 June 2011 (30 June 2010 NIL).

#### (iii) Holdings in option shares pursuant to shareholder deeds

On 1 July 2007, the Company entered into shareholder agreements that included key management personnel by which non-participatory shares in the Company's subsidiaries were issued. These shares were, on attainment of certain vesting conditions, convertible to ordinary shares of the Company.

No shares were granted, converted or expired during the year to 30 June 2011.

The table below details shares converted in the previous year.

| Year ended 30 June 2010   | Balance<br>01.07.09 | Received as<br>Remuneration | Converted to<br>ISS Group<br>Shares | Lapsed   | Balance<br>30.6.10 |
|---|---------------------|-----------------------------|-------------------------------------|----------|--------------------|
| <b>Directors</b>  |                     |                             |                                     |          |                    |
| Mr E Cross – Non-executive Chairman                                 | -                   | -                           | -                                   | -        | -                  |
| Mr S Attwell–Managing Director                                      | -                   | -                           | -                                   | -        | -                  |
| Mr I Spence – Non-executive Director                                | -                   | -                           | -                                   | -        | -                  |
| Mr J Yeudall– Non Executive Chairman<br>(resigned 7 September 2009) | -                   | -                           | -                                   | -        | -                  |
| <b>Other key management personnel</b>                               |                     |                             |                                     |          |                    |
| Richard Pang  | 250,000             | -                           | (250,000)                           | -        | -                  |
| Frank Zenke   | 83,334              | -                           | (83,334)                            | -        | -                  |
| Jeremy Smith  | 166,667             | -                           | (166,667)                           | -        | -                  |
| John Purnell  | -                   | -                           | -                                   | -        | -                  |
| Lee Timmins   | -                   | -                           | -                                   | -        | -                  |
| Tony Hanavan (from 8 February 2010)                                 | -                   | -                           | -                                   | -        | -                  |
| <b>Total</b>  | <b>500,001</b>      | <b>-</b>                    | <b>(500,001)</b>                    | <b>-</b> | <b>-</b>           |

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## DIRECTORS' REPORT

### Remuneration Report (Continued)

#### Service agreements (audited)

##### *Executive Services Agreement with Mr Richard Pang*

The key terms of the Executive Services Agreement between the Company and Mr Richard Pang are set out below.

Mr Pang is paid a gross base salary SGD \$370,333, in addition to the salary the Company shall provide Mr Pang with a good standard of accommodation while he is performing services in Singapore including utility costs except telephone.

Mr Pang is entitled to terminate the Executive Services Agreement with 3 months written notice and can be terminated by the Company in a number of circumstances, including:

- by giving 3 months written notice in the event Mr Pang is unable by reason of illness or incapacity to perform his duties for a total of 9 months in any 12 month period, or becomes of unsound mind;
- by giving 1 month written notice in the event Mr Pang commits or becomes guilty of Gross Misconduct or in the reasonable opinion of the board, does not perform his duties;
- summarily without notice if Mr Pang is convicted of any major criminal offence which brings the Company into any lasting disrepute or misuses price sensitive information; and
- without reason giving 3 month's written notice. The Company can elect to dispense with the notice period and pay the equivalent of 3 month's salary.

##### *Executive Services Agreement with Mr Frank Zenke*

The key terms of the Executive Services Agreement between the Company and Mr Frank Zenke are set out below.

Mr Zenke is paid a gross base salary of \$213,779 including statutory superannuation and motor vehicle benefit.

Mr Zenke is entitled to terminate the Executive Services Agreement with 3 months written notice and can be terminated by the Company in a number of circumstances, including:

- by giving 3 months written notice in the event Mr Zenke is unable by reason of illness or incapacity to perform his duties for a total of 9 months in any 12 month period, or becomes of unsound mind;
- by giving 1 month written notice in the event Mr Zenke commits or becomes guilty of Gross Misconduct or in the reasonable opinion of the board, does not perform his duties;
- summarily without notice if Mr Zenke is convicted of any major criminal offence which brings the Company into any lasting disrepute or misuses price sensitive information; and
- without reason giving 3 month's written notice. The Company can elect to dispense with the notice period and pay the equivalent of 3 month's salary.

##### *Executive Services Agreement with Mr Jeremy Smith*

The key terms of the Executive Services Agreement between the Company and Mr Jeremy Smith are set out below.

Mr Smith is paid a gross base salary of SGD\$225,000 for a period of 3 years. In addition, the Company pays accommodation, medical insurance and school fees.

Mr Smith is entitled to terminate the Executive Services Agreement with 3 months written notice and can be terminated by the Company in a number of circumstances, including:

- by giving 3 months written notice in the event Mr Smith is unable by reason of illness or incapacity to perform his duties for a total of 9 months in any 12 month period, or becomes of unsound mind;
- by giving 1 month written notice in the event Mr Smith commits or becomes guilty of Gross Misconduct or in the reasonable opinion of the board, does not perform his duties;
- summarily without notice if Mr Smith is convicted of any major criminal offence which brings the Company into any lasting disrepute or misuses price sensitive information; and
- without reason giving 3 month's written notice. The Company can elect to dispense with the notice period and pay the equivalent of 3 month's salary.

## DIRECTORS' REPORT

### Remuneration Report (Continued)

#### *Executive Services Agreement with Mr John Purnell*

The key terms of the Executive Services Agreement between the Company and Mr John Purnell are set out below.

Mr Purnell is paid a gross base salary of £94,248 including pension contributions. In addition, the Company pays medical insurance.

Mr Purnell is entitled to terminate the Executive Services Agreement with 3 months written notice and can be terminated by the Company in a number of circumstances, including:

- summarily without notice if Mr Purnell commits or becomes guilty of Gross Misconduct or is convicted of any major criminal offence which brings the Company into any lasting disrepute or misuses price sensitive information; and
- without reason giving 3 month's written notice. The Company can elect to dispense with the notice period and pay the equivalent of 3 month's salary.

#### *Executive Services Agreement with Mr Lee Timmins*

The key terms of the Executive Services Agreement between the Company and Mr Lee Timmins are set out below.

Mr Timmins is paid a gross base salary of US\$140,000. In addition to the salary, the Company will provide contribution to a retirement program at a rate of 3% of annual salary and \$700 per month health care allowance.

Mr Timmins is entitled to terminate the Executive Services Agreement with 1 month written notice and can be terminated by the Company in a number of circumstances, including:

- by giving 1 month written notice in the event Mr Timmins is unable by reason of illness or incapacity to perform his duties for a total of 9 months in any 12 month period, or becomes of unsound mind;
- by giving 1 month written notice in the event Mr Timmins commits or becomes guilty of Gross Misconduct or in the reasonable opinion of the board, does not perform his duties;
- summarily without notice if Mr Timmins is convicted of any major criminal offence which brings the Company into any lasting disrepute or breaches the Company email and internet use and access policy or misuses price sensitive information; and
- without reason giving 1 month written notice. The Company can elect to dispense with the notice period and pay the equivalent of 1 month's salary.

#### *Executive Services Agreement with Mr Cliff Lang*

The key terms of the Executive Services Agreement between the Company and Mr Cliff Lang are set out below.

Mr Lang is paid a gross base salary of \$160,000 including statutory superannuation.

Mr Lang is entitled to terminate the Executive Services Agreement with 3 months written notice and can be terminated by the Company in a number of circumstances, including:

- by giving 3 months written notice in the event Mr Lang is unable by reason of illness or incapacity to perform his duties for a total of 9 months in any 12 month period, or becomes of unsound mind;
- by giving 1 month written notice in the event Mr Lang commits or becomes guilty of Gross Misconduct or in the reasonable opinion of the board, does not perform his duties;
- summarily without notice if Mr Lang is convicted of any major criminal offence which brings the Company into any lasting disrepute or misuses price sensitive information; and
- without reason giving 3 month's written notice. The Company can elect to dispense with the notice period and pay the equivalent of 3 month's salary.

**End of Remuneration report**

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## DIRECTORS' REPORT

### Meetings of Directors

The number of meetings of the company's board of directors and each board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

|              | Director Meetings         |                 | Audit Committee Meetings  |                 |
|--------------|---------------------------|-----------------|---------------------------|-----------------|
|              | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Mr E Cross   | 5                         | 5               | 2                         | 2               |
| Mr I Spence  | 5                         | 5               | 2                         | 2               |
| Mr S Attwell | 5                         | 5               | 2                         | 2               |

### Indemnifying Directors and Officers

During the financial year, ISS Group Limited paid a premium of \$21,379 (2010: \$21,416) to insure the directors and secretary of the company and its Australian-based controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### Options

No options over unissued shares were granted, exercised or lapsed during the financial year by the company.

### Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of ISS Group Limited support and adhere to the principles of corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

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## DIRECTORS' REPORT

### Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

### Non-audit Services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (HLB Mann Judd) for audit and non-audit services provided during the period are outlined in Note 10 to the financial statements.

For the financial year ended 30 June 2011 HLB Mann Judd has provided non-audit services in the form of taxation compliance services. The Board of Directors have considered the position and, in accordance with the advice received from the audit committee, are satisfied that the provision of the non-audit services by the auditor, as set out below, do not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

This report is made in accordance with a resolution of the Board of Directors.



Mr Evan Cross  
Director

Dated this 6<sup>th</sup> day of September 2011

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Accountants | Business and Financial Advisers

### AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of ISS Group Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'M R W OHM'.

Perth, Western Australia  
6 September 2011

M R W OHM  
Partner, HLB Mann Judd

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## CORPORATE GOVERNANCE STATEMENT

ISS Group Limited is committed to protecting and enhancing shareholder value and adopting best practice governance policies and practices, as set out by the ASX Corporate Governance Council, and to the extent required by the ASX Listing Rules.

This Corporate Governance Statement outlines the main Corporate Governance practices that were in place at the date of this report and throughout the financial year, which comply with the Australian Securities Exchange ('ASX') Corporate Governance Council recommendations. Where a recommendation has not been followed, this is clearly stated along with an explanation for the departure.

Further information about the Company's corporate governance is set out on the Company's website at [www.issgroup.com.au](http://www.issgroup.com.au). In accordance with the recommendations of the ASX, information published on the Company's website includes:

1. Board Charter
2. Nomination Committee Charter
3. Audit and Risk Committee Charter
4. Remuneration Committee Charter
5. Policy and Procedure for Selection and Appointment of New Directors
6. Code of Conduct
7. Policy for Dealing in the Company Securities
8. Continuous Disclosure Policy
9. Shareholder Communications Policy
10. Company's Risk Management Policy

### Principle 1

#### Lay solid foundations for management and oversight

##### Role of the Board of Directors and Senior executives

The Board is the governing body of the Company. The Board and the Company act within a statutory framework – principally the Corporations Act and also the Constitution of the Company. Subject to this statutory framework, the Board has the authority and the responsibility to perform the functions, determine the policies and control the affairs of ISS Group Limited.

The Board must ensure that ISS Group Limited acts in accordance with prudent commercial principles, and satisfies shareholders, consistent with maximising the Company's long term value.

The primary responsibilities of the Board include:

- appointment of the Chief Executive Officer and other senior executives and the determination of their terms and conditions including remuneration and termination;
- driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
- approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
- approving the annual, half yearly and quarterly accounts;
- approving significant changes to the organisational structure;
- approving the issue of any shares, options, equity instruments or other securities in the Company;
- ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;
- recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and
- meeting with the external auditor, at their request, without management being present.

The Board delegate the responsibility for the day to day operations and administration of the Company to the Chief Executive Officer. The role of senior executives is to support the Chief Executive Officer and Managing Director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board. In carrying out his responsibilities the Chief Executive Officer must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's operational results and financial position.

The Board may from time to time, delegate some of its responsibilities listed above to its senior executives.

A copy of the Board Charter is available on the Company's website.

## **CORPORATE GOVERNANCE STATEMENT**

### **Principle 1 (continued)**

#### **Evaluating the Performance of Senior Executives**

The Remuneration Committee oversees an annual performance evaluation of the executive team. This evaluation is based on specific criteria, including the business performance of the Company and its subsidiaries, by implementing key performance indicators, reviewing whether strategic objectives are being achieved and the development of management and personnel.

During the financial year, informal performance reviews of executive directors and senior management were performed by the Remuneration Committee in accordance with the process disclosed above.

### **Principle 2**

#### **Structure the Board to add value**

##### **Board Composition**

The composition of the Board has been determined on the basis of providing the Company with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level and is to be reviewed regularly.

In appointing new members to the Board, consideration is given to the ability of the appointee to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of strategic direction of the Company.

Directors are initially appointed by the Board and are subject to re-election by shareholders at the next general meeting. In any event no Director may serve for more than three years or past the third annual general meeting following their appointment, whichever is the longer, without being re-elected by shareholders.

A profile of each Director, their skills and experience and period of office are set out in the Directors' report.

The majority of the Board is comprised of non-executive directors, with, where practical, at least 50% of the board being independent. An independent director is one who is independent of management and free from any business or other relationship, which could, or could reasonably be perceived to; materially interfere with, the exercise of independent judgement. The Board has assessed the independence of the Non-Executive Directors in accordance with the definition contained within the ASX Corporate Governance Guidelines and has concluded that all the current Non-Executive Directors, including the Chairman, are independent.

The roles of Chairman and Executive Officer are exercised by different individuals, providing for clear division of responsibility at the head of the company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them. Mr Shane Attwell was the Company's Managing Director until the 30<sup>th</sup> of June 2011, when he assumed the position of Director and Mr Richard Pang was appointed Chief Executive Officer on the 6<sup>th</sup> of August 2010 and Managing Director on the 1<sup>st</sup> of July 2011.

#### **Education, Independent professional advice and access to information**

The Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board. All Directors are encouraged to attend professional education courses relevant to their roles.

#### **Nomination Committee**

The Board has established a Nomination Committee. The primary purpose of this Committee is to support and advise the Board in:

- maintaining a Board that has an appropriate mix of skills and experience to be an effective decision-making body; and
- ensuring that the Board is comprised of Directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance.

A copy of the Nomination Committee Charter is available on the Company's website.

The Nomination Committee shall comprise of 3 non-executive directors where possible and structured so that majority of the members are independent. During the financial year, Mr Evan Cross and Mr Ian Spence were members of the Nomination Committee.

During the financial year no meetings were held by the nomination committee.

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## **CORPORATE GOVERNANCE STATEMENT**

### **Principle 2 (Continued)**

#### **Evaluating the Performance of the Board, its Committees and individual Directors**

The Nomination Committee did not conduct formal reviews of the Board performance, its committees or individual directors during the financial year and as such the company did not comply with Recommendation 2.5 of the Corporate Governance Council. The board is currently of the opinion that the competitive environment in which the Company operates will effectively provide a measure of the performance of the Directors. The Chairman, Evan Cross, will assess the establishment of a formal review process going forward.

The Company does not have a formal policy and procedure for selection and appointment of new directors. It is the responsibility of the Nomination Committee to make such recommendations to the Board. Candidates are considered and selected by reference to their experience, professional skills, potential conflicts of interest, the requirement for independence and the existing collective experience of the Board.

### **Principle 3**

#### **Promote ethical and responsible decision-making**

The Board places great emphasis on ethics and integrity in all its business dealings.

It is expected that all directors, managers and employees observe the highest standards of integrity, objectivity and business ethics in conducting its business, striving at all times to enhance the reputation and performance of the company in respect of legal and other obligations to all legitimate stakeholders. Accordingly, the Board has adopted a Code of Conduct that applies to all employees, executives and Directors of the Company and which address expectations for conduct in the following areas:

- Personal and professional behaviour
- Conflict of interest
- Public and Media Comment
- Use of Company resources
- Security of information
- Intellectual property / copyright
- Discrimination and harassment
- Corrupt conduct
- Occupational health and safety
- Legislation
- Fair Dealing
- Insider Trading
- Responsibility to investors

A copy of the Company's Code of Conduct is available on the company's website.

#### **Trading in the company's shares**

The company's policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices. Statutory provisions of the Corporations Act dealing with insider trading have been strictly complied with.

Guidelines for buying and selling securities are available on the Company's website. The Guidelines set out the policy on the sale and purchase of securities in the Company by its Directors and employees. The purpose of these guidelines is to assist Directors and employees to avoid conduct known as 'insider trading'. In some respects, the Company's policy extends beyond the strict requirements of the Corporations Act. A copy of the Company's trading policy is available on the company's website.

#### **Diversity Policy**

The Board has adopted and supported an "Equal Opportunity Policy" across the Group with a focus on women in the workplace at ISS. The Board recognises the significant contribution that women make and encourages diversification where and when possible. To ensure that this approach is maintained and enhanced, the Board has reviewed and approved a Diversity Policy focusing on the recruitment, development and support of women at ISS. As a ratio the Group is proud to report that 27% of its work force, and specifically 35% of the management team, are women. The Board is also reviewing opportunities to expand the Board capabilities via the recruitment of a woman board member.

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## **CORPORATE GOVERNANCE STATEMENT**

### **Principle 4**

#### **Safeguard integrity in financial reporting**

##### **Audit and Risk Committee**

The board has established an Audit and Risk Committee. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated responsibility for the establishment and framework of internal controls and ethical standards for the management of the Group to the Audit and Risk Committee.

The primary purpose of the Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to:

- the quality and integrity of the Company's financial statements, accounting policies and financial reporting and disclosure practices;
- compliance with all applicable laws, regulations and company policy;
- the effectiveness and adequacy of internal control processes;
- the performance of the Company's external auditors and their appointment and removal;
- the independence of the external auditor and the rotation of the lead engagement partner; and
- the identification and management of business risks.

All members of the Audit and Risk Committee are independent non-executive directors.

The members of the audit committee during the year were:

- Mr I Spence (Chairman)
- Mr E Cross

The number of meetings held during the year and member attendances are disclosed in the directors' report.

The audit committee invites the Company Secretary to attend meetings as required. The external auditors, other Directors and senior executives, are invited to Committee meetings at the discretion of the Committee.

The audit and risk committee charter is publically available on the Company's website.

##### **External Auditors**

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. Performance of the external auditor is reviewed annually by the Audit Committee. Audit partner rotation is required by the Corporations Act 2001 every five years.

The external auditor is required to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

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## **CORPORATE GOVERNANCE STATEMENT**

### **Principle 5**

#### **Make timely and balanced disclosure**

The Company complied with all disclosure requirements to ensure that it manages the disclosure of price sensitive information effectively and in accordance with the requirements as set out by regulatory bodies. All market disclosures are approved by the Board.

The Company has in place a written policy on information disclosure and relevant procedures. The Company's policy is available on the Company website.

The focus of these procedures is on continuous disclosure compliance and improving access to information for investors. The Company secretary is responsible for:

- Overseeing and co-ordinating disclosure of information to relevant stock exchanges and shareholders; and
- Providing guidance to Directors and employees on disclosure requirements and procedures.

The Managing Director and Company Secretary are authorised to communicate with shareholders and the market in relation to Board approved disclosures.

All announcements made to the ASX are placed on the Company's web site immediately after public release.

### **Principle 6**

#### **Respect the rights of shareholders**

The Company has a positive strategy to communicate with shareholders and actively promote shareholder involvement in the Company. It aims to continue to increase and improve the information available to shareholders on its website. All company announcements, presentations to analysts and other significant briefings are posted on the company's website after release to the Australian Stock Exchange. Shareholders can register with the Company's Registrar to receive email notifications of when an announcement is made by the Company to the Australian Stock Exchange, including the release of the annual, half yearly and quarterly reports. The Company's communication strategy is available on the Company's website.

The Company requests the external auditor to attend the annual general meeting to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

### **Principle 7**

#### **Recognise and manage risk**

The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Committee responsibility for implementing the risk management system.

The Audit and Risk Committee will submit particular matters to the Board for its approval or review. Among other things it will:

- oversee the Company's risk management systems, practices and procedures to ensure effective risk identification and management and compliance with internal guidelines and external requirements;
- assist management to determine the key risks to the businesses and prioritise work to manage those risks; and
- review reports by management on the efficiency and effectiveness of risk management and associated internal compliance and control procedures.

## CORPORATE GOVERNANCE STATEMENT

### Principle 7 (Continued)

The Company's process of risk management and internal compliance and control includes:

- identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks.
- Formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls.
- Monitoring the performance of, and improving the effectiveness of, risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

To this end, comprehensive practices are in place which are directed towards achieving the following objectives:

- compliance with applicable laws and regulations.
- preparation of reliable published financial information.
- implementation of risk transfer strategies where appropriate e.g. insurance.

Identified risks and management policies are disclosed in note 24 to the financial statements.

The Company's risk management strategy is publicly available on the company's website.

The company does not have an internal audit function.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report back half yearly to the Audit Committee. Further reviews and feedback sessions are provided on an informal basis to the Board via ad hoc reports or meetings.

The Board will review assessments of the effectiveness of risk management and internal compliance and control on an annual basis.

The Managing Director and Company Secretary have provided representations to the Board regarding

- Compliance with accounting policies, relevant accounting standards and Corporations Act;
- The accuracy of the financial statements and that they provide a true and fair view, in all material respects, of the financial position and operational results;
- Integrity and objectivity of the financial statements;
- Sound system of risk management and internal compliance and control which implements the policies adopted by the board; and
- Efficiency and effectiveness of the company's risk management and internal compliance and control system.

### Principle 8

#### Remunerate fairly and responsibly

The board has established a remuneration committee, comprising two non-executive directors, where practical. The members of the remuneration committee during the financial year were Mr Evan Cross and Mr Ian Spence. During the financial year, Mr Ian Spence chaired the remuneration committee.

The committee's primary duties are:

- Review and approve the Group's recruitment, retention and termination policies and procedures for senior executives to enable the Company to attract and retain executives and Directors who can create value for shareholders
- Review ongoing appropriateness and relevance of the executive remuneration policy and other executive programs, ensuring that the policies fairly and responsibly reward executives having regard to the performance of the executive and prevailing remuneration expectations in the market.
- Make recommendations to the Board on the remuneration of each executive Director
- Review and approve proposed remuneration for direct reports of the Managing Director and Chief Executive Officer, including overseeing the annual performance evaluation of the executive team.

The committee held one meeting during the financial year.

A copy of the remuneration committee charter is available on the Company's website.

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## CORPORATE GOVERNANCE STATEMENT

### Principle 8 (Continued)

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits. The remuneration committee reviews executive packages annually by reference to the Group's performance, executive performance, whether strategic objectives are being achieved and the development of management and personnel.

The performance of executives is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive director and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Each of the non-executive directors receives a fixed fee for their services as directors. Non-executive directors' fees not exceeding an aggregate of \$200,000 per annum have been approved by the Company in a general meeting. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievements of certain key performance indicators.

The board of ISS Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

Further information and the components of remuneration for directors' are set out in the Directors' Report and notes to the financial statements.

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**ISS GROUP LTD.**

**FINANCIAL REPORT**

**For the year ended 30 June 2011**

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

|   | Note | Consolidated      |                   |
|---|------|-------------------|-------------------|
|   |      | 2011<br>\$        | 2010<br>\$        |
| <b>Revenue</b>  | 5    | <b>17,465,915</b> | <b>18,726,892</b> |
| Other income  | 6    | 165,406           | 45,543            |
| Employee benefits expense                                       |      | (11,711,489)      | (11,431,476)      |
| Consulting and labour hire                                      |      | (447,211)         | (595,075)         |
| Depreciation  |      | (334,513)         | (423,196)         |
| Finance costs   |      | (3,847)           | (5,254)           |
| Rent & outgoings  |      | (1,272,185)       | (1,318,221)       |
| Travel  |      | (227,472)         | (277,968)         |
| Other expenses  |      | (2,234,727)       | (1,400,784)       |
| <b>Profit before income tax</b>                                 | 7    | <b>1,399,877</b>  | <b>3,320,461</b>  |
| Income tax benefit / (expense)                                  | 8    | <b>(278,335)</b>  | <b>319,133</b>    |
| <b>Net profit for the period</b>                                |      | <b>1,121,542</b>  | <b>3,639,594</b>  |
| <b>Other comprehensive income</b>                               |      |                   |                   |
| Exchange differences on translation of foreign operations       |      | 387,312           | 132,338           |
| Foreign exchange loss reclassified to equity                    | 2    | (399,305)         | -                 |
| Income tax relating to components of other comprehensive income |      | 119,792           | -                 |
| <b>Other comprehensive income for the year, net of tax</b>      |      | <b>107,799</b>    | <b>132,338</b>    |
| <b>Total comprehensive income for the year</b>                  |      | <b>1,229,341</b>  | <b>3,771,932</b>  |
| Net profit attributable to:                                     |      |                   |                   |
| Owners of the parent  |      | 1,121,542         | 3,639,594         |
| Comprehensive income attributable to:                           |      |                   |                   |
| Owners of the parent  |      | 1,229,341         | 3,771,932         |
|   |      | Cents             | Cents             |
| Basic earnings per share (cents per share)                      | 11   | 0.82              | 2.70              |
| Diluted earnings per share (cents per share)                    | 11   | 0.82              | 2.70              |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

|                                      | Note | Consolidated      |                   |
|--------------------------------------|------|-------------------|-------------------|
|                                      |      | 2011<br>\$        | 2010<br>\$        |
| <b>Current Assets</b>                |      |                   |                   |
| Cash and cash equivalents            | 12   | 6,330,537         | 6,746,671         |
| Trade and other receivables          | 13   | 5,214,665         | 4,458,580         |
| <b>Total Current Assets</b>          |      | <b>11,545,202</b> | <b>11,205,251</b> |
| <b>Non-Current Assets</b>            |      |                   |                   |
| Property, plant and equipment        | 14   | 1,261,189         | 1,474,183         |
| Receivables                          | 13   | 612,219           | 199,810           |
| Deferred tax assets                  | 8    | 1,088,995         | 1,170,330         |
| <b>Total Non-Current Assets</b>      |      | <b>2,962,403</b>  | <b>2,844,323</b>  |
| <b>Total Assets</b>                  |      | <b>14,507,605</b> | <b>14,049,574</b> |
| <b>Current Liabilities</b>           |      |                   |                   |
| Trade and other payables             | 15   | 1,570,744         | 1,452,061         |
| Interest-bearing liabilities         | 16   | 15,259            | 14,214            |
| Current tax liabilities              | 17   | -                 | 441,579           |
| Provisions                           | 18   | 867,583           | 243,461           |
| <b>Total Current Liabilities</b>     |      | <b>2,453,586</b>  | <b>2,151,315</b>  |
| <b>Non-Current Liabilities</b>       |      |                   |                   |
| Provisions                           | 18   | 43,590            | -                 |
| Interest-bearing liabilities         | 16   | 30,984            | 46,243            |
| <b>Total Non-Current Liabilities</b> |      | <b>74,574</b>     | <b>46,243</b>     |
| <b>Total Liabilities</b>             |      | <b>2,528,160</b>  | <b>2,197,558</b>  |
| <b>Net Assets</b>                    |      | <b>11,979,445</b> | <b>11,852,016</b> |
| <b>Equity</b>                        |      |                   |                   |
| Issued capital                       | 19   | 14,739,471        | 14,478,800        |
| Reserves                             | 20   | 2,479,021         | 2,371,222         |
| Accumulated losses                   | 21   | (5,239,047)       | (4,998,006)       |
| <b>Total Equity</b>                  |      | <b>11,979,445</b> | <b>11,852,016</b> |

The above statement of financial position should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

| Consolidated  | Note | Issued Capital    | Retained Earnings  | Foreign Currency Translation Reserve | Share Based Payments Reserve | Total             |
|---|------|-------------------|--------------------|--------------------------------------|------------------------------|-------------------|
|   |      | \$                | \$                 | \$                                   | \$                           | \$                |
| <b>Balance as at 1 July 2009</b>                                  |      | <b>14,090,492</b> | <b>(8,637,600)</b> | <b>180,676</b>                       | <b>2,058,208</b>             | <b>7,691,776</b>  |
| Profit for the year   |      | -                 | 3,639,594          | -                                    | -                            | 3,639,594         |
| Exchange differences arising on translation of foreign operations |      | -                 | -                  | 132,338                              | -                            | 132,338           |
| <b>Total comprehensive income for the year</b>                    |      | -                 | 3,639,594          | 132,338                              | -                            | 3,771,932         |
| Tax effect of share issue costs                                   |      | 388,308           | -                  | -                                    | -                            | 388,308           |
| <b>Balance at 30 June 2010</b>                                    |      | <b>14,478,800</b> | <b>(4,998,006)</b> | <b>313,014</b>                       | <b>2,058,208</b>             | <b>11,852,016</b> |
| <b>Balance as at 1 July 2010</b>                                  |      | <b>14,478,800</b> | <b>(4,998,006)</b> | <b>313,014</b>                       | <b>2,058,208</b>             | <b>11,852,016</b> |
| Profit for the year   |      | -                 | 1,121,542          | -                                    | -                            | 1,121,542         |
| Exchange differences arising on translation of foreign operations |      | -                 | -                  | 387,312                              | -                            | 387,312           |
| Foreign exchange loss reclassified to equity                      | 2    | -                 | -                  | (399,305)                            | -                            | (399,305)         |
| Income tax relating to components of other comprehensive income   |      |                   |                    | 119,792                              |                              | 119,792           |
| <b>Total comprehensive income for the year</b>                    |      | -                 | 1,121,542          | 107,799                              | -                            | 1,229,341         |
| Issued shares   |      | 450,000           | -                  | -                                    | -                            | 450,000           |
| Share buy back scheme   |      | (189,329)         | -                  | -                                    | -                            | (189,329)         |
| Dividends paid  |      | -                 | (1,362,583)        | -                                    | -                            | (1,362,583)       |
| <b>Balance at 30 June 2011</b>                                    |      | <b>14,739,471</b> | <b>(5,239,047)</b> | <b>420,813</b>                       | <b>2,058,208</b>             | <b>11,979,445</b> |

The above statement of changes in equity should be read in conjunction with the accompanying notes

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

|   | Note | Consolidated |              |
|---|------|--------------|--------------|
|   |      | 2011<br>\$   | 2010<br>\$   |
| <b>Cash flows from operating activities</b>                               |      |              |              |
| Receipts from customers (inclusive of goods and services tax)             |      | 17,340,084   | 18,318,818   |
| Payments to suppliers and employees (inclusive of goods and services tax) |      | (15,283,081) | (16,043,069) |
| Government grants received  |      | 156,218      | -            |
| Interest received   |      | 246,773      | 22,871       |
| Interest paid   |      | (3,847)      | (5,254)      |
| Taxation paid   |      | (616,594)    | (57,349)     |
| Net cash (used) in / generated by operating activities                    | 22   | 1,839,553    | 2,236,017    |
| <b>Cash flows from investing activities</b>                               |      |              |              |
| Payments for plant and equipment  |      | (134,821)    | (230,994)    |
| Payments for security deposits  |      | -            | 65,407       |
| Proceeds from sale of plant and equipment                                 |      | -            | 14,045       |
| Net cash (used in) / provided by investing activities                     |      | (134,821)    | (151,542)    |
| <b>Cash flows from financing activities</b>                               |      |              |              |
| Payments for share buy back   |      | (189,329)    | -            |
| Dividends paid to company's shareholders                                  |      | (1,362,583)  | -            |
| Repayment of borrowings   |      | (14,214)     | (29,401)     |
| Net cash (used in) / provided by financing activities                     |      | (1,566,126)  | (29,401)     |
| <b>Net (decrease) / increase in cash and cash equivalents</b>             |      | 138,606      | 2,055,074    |
| Cash and cash equivalents at the beginning of the year                    |      | 6,746,671    | 4,804,010    |
| Effect of exchange rates on cash holdings in foreign currencies           |      | (554,740)    | (112,413)    |
| <b>Cash and cash equivalents at the end of the year</b>                   | 12   | 6,330,537    | 6,746,671    |

The above statement of cash flows should be read in conjunction with the accompanying notes.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied, unless otherwise stated. The financial report covers ISS Group Ltd (“company” or “parent entity”) and its subsidiaries and is presented in Australian dollars. ISS Group Ltd is a listed public company, incorporated and domiciled in Australia.

#### (a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

These financial statements have been prepared under the historical cost convention, except where otherwise stated. Cost is based on the fair value of the consideration given in exchange for assets.

##### *Statement of compliance*

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The financial report was authorised for issue in accordance with a resolution of directors on the 6<sup>th</sup> September 2011.

#### (b) Adoption of new and revised standards

In the year ended 30 June 2011 the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### (c) Principles of consolidation

The consolidated financial statements comprise the separate financial statements of ISS Group Limited and its subsidiaries as at 30 June each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Business combinations are accounted for using the acquisition method of accounting (refer note (i)).

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the statement of comprehensive income and within equity in the statement of financial position. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within equity attributable to owners of ISS Group Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### (d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of ISS Group Limited.

#### (e) Foreign currency translation

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is ISS Group Ltd's functional and presentation currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****(e) Foreign currency translation (continued)****(iii) Group companies**

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at balance date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

**(f) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Interest revenue is recognised based on the effective interest method.

Sale of services are recognised in the accounting period for which the services are rendered, by reference to the stage of completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Dividends received from investments in subsidiaries, jointly controlled entities or associates are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment.

All revenue is stated net of the amount of goods and services tax (GST).

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (g) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the statement of comprehensive income on a straight line basis over the expected lives of the related assets.

#### (h) Income Tax

Income tax expense or benefit comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by balance date.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (h) Income Tax (cont'd)

ISS Group Ltd and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as at 1 July 2006. Current and deferred tax amounts are accounted for in each individual entity as if each entity continued to act as a taxpayer on its own.

ISS Group Ltd recognises its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its subsidiaries within the tax consolidated group.

#### (i) Business Combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (j) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### (k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (l) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (m) Plant and Equipment

Items of plant and equipment are carried at historical cost less accumulated depreciation, and any accumulated impairment losses.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(j)).

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is de-recognised.

#### Depreciation

Items of plant and equipment are depreciated over their estimated useful lives. The straight line method of depreciation is used and assets are depreciated from the date of acquisition. The expected useful lives are as follows:

|                        |              |
|------------------------|--------------|
| Fixtures and equipment | 3 – 10 years |
| Motor vehicles         | 5 – 7 years  |

#### (n) Investments in subsidiaries

Investments in subsidiaries are stated at cost. Where there has been an impairment in the value of an investment an impairment charge is recognised.

#### (o) Intangible assets

##### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the company's investment in each country of operation.

Impairment losses recognised for goodwill are not subsequently reversed.

#### (p) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (q) Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (r) Employee Benefits

##### *(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Contributions are made by the company to employee superannuation funds and are charged as expenses when incurred. During the year the company contributed 9% of salaries and wages under the Superannuation Guarantee Act requirements.

##### *(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

##### *(iii) Share based payments*

Equity settled transactions:

Share-based compensation benefits are provided to employees via the company's Employee Incentive Option Plan. Information relating to these schemes is set out in Note 26.

The fair value of options granted under the company's Employee Incentive Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

In respect of performance shares, market conditions are factored into the valuation of the shares on grant date, with no subsequent adjustment made for changes in the probability of the target being met. The vesting condition is not included in the valuation of the share, but is used to adjust the number of equity instruments expected to vest. This probability is adjusted each period so that on a cumulative basis an expense is only recognised where the vesting condition is met. The expense is recognised over the vesting period, which is equal to the expected length of time required to meet the vesting conditions. If the employee leaves, the balance of the cost is recognised in full.

#### (s) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the finance balance outstanding.

The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (t) Financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

##### (i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### (u) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at balance date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

#### (v) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (w) Earnings per share

##### (i) Basic earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

##### (ii) Diluted earnings per share

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### (x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are included in the Statements of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the ATO are classified as operating cash flows.

#### (y) Parent entity financial information

The financial information for the parent entity, ISS Group Limited, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

##### (i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of ISS Group Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (z) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

### NOTE 2: Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both.

#### (i) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model.

#### (ii) Recovery of deferred tax assets

Deferred tax assets have been recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

#### (iii) Exchange variations on net investments in foreign operations

In accordance with AASB121 *The Effects of Changes in Foreign Exchange Rates* and Note 1(e)(iii), on consolidation exchange differences on translation of any net investment in foreign operations are taken to the foreign currency translation reserve. In previous accounting periods, the Directors considered that settlement of these loans was both planned and likely to occur in the foreseeable future. In the current period, it is considered that it is unlikely that A\$1,000,000 owing to ISS Australia Pty Ltd by ISS Group Asia Pte Ltd and A\$1,250,000 owed by ISS Group Europe Ltd will be repaid in the foreseeable future and neither is such repayment planned. Therefore, in accordance with AASB121, a total of \$399,305 of foreign exchange losses and the associated tax effect of \$119,792 has been reclassified to the foreign currency translation reserve.

### NOTE 3: Segment information

#### (a) Description of segments

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Board of ISS Group Limited.

The Company is an Australian information and technology company that develops and markets infrastructure and application software for the oil, gas and mineral processing industries. Although the Group's divisions are managed on a global basis they operate in four main geographical areas which are regarded as the operating segments for the consolidated entity, as described below:

##### *Australia*

The home country of the parent entity. The areas of operation are principally to identify and develop global distribution channels as well as to provide the localised delivery capability and product R & D.

##### *Singapore*

Provides localised sales, support and delivery capability for the Asia & Middle East regions.

##### *Europe*

Provides localised sales, support and delivery capability for the European and African regions.

##### *USA*

Provides localised sales, support and delivery capability for the North and South American regions.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 3: Segment information (continued)

| 30 June 2011                                    | Australia<br>\$ | Asia<br>\$ | Europe<br>\$ | USA<br>\$ | Consolidation<br>Elimination<br>\$ | Consolidated<br>\$ |
|---|-----------------|------------|--------------|-----------|------------------------------------|--------------------|
| Revenue   |                 |            |              |           |                                    |                    |
| Sales to external customers                     | 10,681,448      | 4,182,402  | 2,052,155    | 324,496   | -                                  | 17,240,501         |
| Other revenues from external customers          | 157,127         | 8,279      | -            | -         | -                                  | 165,406            |
| Interest revenue                                | 224,862         | -          | 552          | -         | -                                  | 225,414            |
| Inter-segment sales                             | 1,911,120       | 522,697    | 59,080       | 1,128,389 | (3,621,286)                        | -                  |
| Total segment revenue                           | 12,974,557      | 4,713,378  | 2,111,787    | 1,452,885 | (3,621,286)                        | 17,631,321         |
| Segment net operating profit / (loss) after tax | 292,932         | 225,473    | 174,546      | 149,077   | 279,514                            | 1,121,542          |
| Interest expense                                | 3,847           | -          | -            | -         | -                                  | 3,847              |
| Depreciation and amortisation                   | 264,086         | 57,689     | 12,738       | -         | -                                  | 334,513            |
| Other non-cash expenses                         | 451,244         | 90,357     | 61,539       | 53,418    | -                                  | 656,558            |
| Income tax (benefit) / expense                  | 169,143         | 94,940     | (105,540)    | -         | 119,792                            | 278,335            |
| Segment assets                                  | 17,032,538      | 2,807,966  | 166,810      | 898,134   | (6,397,843)                        | 14,507,605         |
| Acquisition of segment assets                   | 111,116         | 23,318     | 387          | -         | -                                  | 134,821            |
| Segment liabilities                             | 880,175         | 2,196,311  | 1,218,975    | 1,590,725 | (3,358,026)                        | 2,528,160          |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 3: Segment information (continued)**

| 30 June 2010                                    | Australia<br>\$ | Asia<br>\$ | Europe<br>\$ | USA<br>\$ | Consolidation<br>Elimination<br>\$ | Consolidated<br>\$ |
|---|-----------------|------------|--------------|-----------|------------------------------------|--------------------|
| Revenue   |                 |            |              |           |                                    |                    |
| Sales to external customers                     | 12,257,527      | 3,746,960  | 2,101,021    | 537,301   | -                                  | 18,642,809         |
| Other revenues from external customers          | 12,831          | 32,712     | -            | -         | -                                  | 45,543             |
| Interest revenue                                | 83,659          | -          | 424          | -         | -                                  | 84,083             |
| Inter-segment sales                             | 2,396,793       | 37,023     | 4,110        | 33,242    | (2,471,168)                        | -                  |
| Total segment revenue                           | 14,750,810      | 3,816,695  | 2,105,555    | 570,543   | (2,471,168)                        | 18,772,435         |
| Segment net operating profit / (loss) after tax | 4,599,603       | (325,865)  | (292,140 )   | (394,995) | 52,991                             | 3,639,594          |
| Interest expense                                | 5,188           | -          | 66           | -         | -                                  | 5,254              |
| Depreciation and amortisation                   | 342,156         | 67,024     | 14,016       | -         | -                                  | 423,196            |
| Other non-cash (income) / expenses              | (262,612)       | 23,224     | -            | -         | -                                  | (239,388)          |
| Income tax (benefit) / expense                  | (299,585)       | (18,047)   | -            | 51,490    | (52,991)                           | (319,133)          |
| Segment assets                                  | 19,509,471      | 1,948,171  | 1,363,283    | 212,665   | (8,984,016 )                       | 14,049,574         |
| Acquisition of segment assets                   | 91,614          | 141,338    | 447          | -         | -                                  | 233,399            |
| Segment liabilities                             | 2,437,549       | 1,512,931  | 2,369,475    | 1,711,226 | (5,833,623)                        | 2,197,558          |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 4: Dividends

The directors have proposed a final unfranked ordinary dividend of 0.065 cents per share for the year ended 30 June 2011.

| Dividends paid during the year are:  | Consolidated     |          |
|--|------------------|----------|
|  | 2011             | 2010     |
|  | \$               | \$       |
| Final dividend for the year ended 30 June 2010 – Fully Franked paid on 29 October 2010               | 676,041          | -        |
| Interim dividend for the year ended 30 June 2011 – Partially Franked at 85.34% paid on 15 March 2011 | 686,542          | -        |
|  | <u>1,362,583</u> | <u>-</u> |

At 30 June 2011, the Company had an estimated \$145,350 franking credits available to shareholders of ISS Group Ltd for subsequent financial years.

Reconciliation of franking credit account:

|   |                  |               |
|---|------------------|---------------|
| Balance on franking credit account at 1 July  | 74,367           | 75,593        |
| Taxation paid / (refunded)                    | 611,812          | (1,226)       |
| Franked dividends of \$1,362,583              | <u>(540,829)</u> | <u>-</u>      |
| Balance on franking credit account at 30 June | <u>145,350</u>   | <u>74,367</u> |

### NOTE 5: Revenue

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| Sales revenue                       |                   |                   |
| — Consulting and licensing revenues | 17,240,501        | 18,642,809        |
| Other revenue                       |                   |                   |
| — Interest received                 | 225,414           | 84,083            |
|                                     | <u>17,465,915</u> | <u>18,726,892</u> |

### NOTE 6: Other income

|                               |                |               |
|-------------------------------|----------------|---------------|
| — Governments grants received | 156,218        | -             |
| — Other                       | 9,188          | 45,543        |
|                               | <u>165,406</u> | <u>45,543</u> |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

| <b>NOTE 7: Expenses</b>   | <b>Consolidated</b> |                |
|---|---------------------|----------------|
|   | <b>2011</b>         | <b>2010</b>    |
|   | <b>\$</b>           | <b>\$</b>      |
| Profit / (loss) before income tax includes the following specific expenses: |                     |                |
| Foreign exchange losses   | 952,804             | 518,888        |
| Superannuation contributions  | 604,846             | 632,069        |
| Depreciation of non-current assets:   |                     |                |
| — Fixtures and equipment  | 323,304             | 407,413        |
| — Motor vehicles  | 11,209              | 15,783         |
|   | <u>334,513</u>      | <u>423,196</u> |
| Other charges against assets:   |                     |                |
| — Doubtful debts reversal of impairment allowance                           | (175,397)           | (280,120)      |
| — Loss on sale of assets  | 242                 | 16,396         |

### NOTE 8: Income Tax

#### Income tax recognised in profit or loss

The major components of tax (benefit) / expense are:

|  |                |                  |
|--|----------------|------------------|
| Current tax expenses   | 224,630        | 939,150          |
| Adjustments recognised in current year in relation to current tax of prior years         | 3,312          | 4,420            |
| Deferred tax (benefit) relating to the origination and reversal of temporary differences | -              | (1,280,758)      |
| Withholding tax  | 50,393         | 18,055           |
| Total tax expense / (benefit)  | <u>278,335</u> | <u>(319,133)</u> |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 8: Income Tax (continued)

|  | Consolidated |             |
|--|--------------|-------------|
|  | 2011<br>\$   | 2010<br>\$  |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: |              |             |
| Accounting profit before income tax  | 1,399,877    | 3,320,461   |
| Income tax expense calculated at 30%   | 419,963      | 996,138     |
| Non-deductible expenses  | 38,059       | 136,305     |
| Non-assessable income  | (22,907)     | 30,903      |
| Assessable income  | 58,211       | -           |
| Benefit of tax losses recognised for the first time  | (52,177)     | -           |
| Difference in tax rate of subsidiaries operating in other jurisdictions  | 6,074        | (11,332)    |
| Tax exempt income  | (41,653)     | 44,709      |
| Foreign tax credits claimed by subsidiaries  | 50,392       | 18,055      |
| R & D tax concessions  | (140,548)    | (149,719)   |
| Deferred tax assets not recognised   | -            | 123,940     |
| Recognition of previously unrecognised temporary differences   | (105,654)    | (1,095,863) |
| Utilisation of previously unrecognised tax losses  | (19,706)     | (697,144)   |
| Income tax expense relating to equity not recognised   | -            | 388,308     |
| Attributed income  | 13,696       | (103,085)   |
| Under provision for income tax of parent   | 83,506       | (10,858)    |
| (Over)/Under provision for income tax of subsidiaries  | (8,929)      | 15,278      |
| Foreign currency translation   | 8            | (4,768)     |
| Income tax expense / (benefit)   | 278,335      | (319,133)   |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 8: Income Tax (continued)

|   | Consolidated |           |
|---|--------------|-----------|
|   | 2011         | 2010      |
|   | \$           | \$        |
| The following deferred amounts were charged directly to equity during the period: |              |           |
| Deferred tax:   |              |           |
| Foreign currency translation reserve  | (119,792)    | -         |
| Share issue expenses  | 388,308      | 388,308   |
|   | 268,516      | 388,308   |
| Deferred tax assets comprise:   |              |           |
| Share issue expenses  | 89,234       | 128,380   |
| Losses available for offset against future taxable income                         | 228,380      | 194,377   |
| Depreciation timing differences   | 499,006      | 510,900   |
| Accrued expenses and liabilities  | 291,730      | 336,673   |
|   | 1,108,350    | 1,170,330 |
| Deferred tax liabilities comprise:  |              |           |
| Depreciation timing differences   | 6,746        | -         |
| Accrued income  | 12,609       | -         |
|   | 19,355       | -         |
| Deferred tax assets not recognised comprise:                                      |              |           |
| Losses available for offset against future taxable income                         | 472,950      | 332,094   |
| Accrued expenses and liabilities  | -            | 4,659     |
|   | 472,950      | 336,753   |
| Deferred tax liabilities not recognised comprise:                                 |              |           |
| Depreciation timing differences   | -            | 4,966     |
| The deductible temporary differences do not expire under current tax legislation. |              |           |

### Tax Consolidation

ISS Group Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2006. ISS Group Limited is the head entity of the tax consolidated group.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 9: Key management disclosures

#### (a) Details of Key Management Personnel

The following persons were directors of ISS Group Ltd during the financial period:

Mr E. Cross - Chairman

Mr I. Spence – Non-Executive Director

Mr S. Attwell, Managing Director (from 1 July 2011 Non-Executive Director)

#### (iii) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, during the financial period.

2011:

Mr Richard Pang, Chief Executive Officer (from 1 July 2011 appointed Managing Director)

Mr Frank Zenke, Company Secretary

Mr Jeremy Smith

Mr John Purnell

Mr Lee Timmins

Mr Tony Hanavan (resigned 6<sup>th</sup> August 2010)

Mr Cliff Lang (from 7<sup>th</sup> August 2010)

2010:

Mr Richard Pang

Mr Frank Zenke, Company Secretary

Mr Jeremy Smith

Mr John Purnell

Mr Lee Timmins

Mr Tony Hanavan

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

The aggregate compensation made to directors and other members of key management personnel of the Company and Group is set out below:

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 9: Key management disclosures (continued)

|                              | Consolidated     |                  |
|------------------------------|------------------|------------------|
|                              | 2011<br>\$       | 2010<br>\$       |
| Short-term employee benefits | 1,783,452        | 1,873,698        |
| Post-employment benefits     | 60,138           | 82,783           |
| Other long-term benefits     | -                | -                |
| Termination benefits         | 45,000           | -                |
|                              | <u>1,888,590</u> | <u>1,956,481</u> |

### (b) Equity instrument disclosures relating to key management personnel

(i) Share holdings: The numbers of shares in the company held during the financial period by each director and other key management personnel of the Group, including their personally related parties, are set out below.

| Year ended 30 June 2011  | Balance<br>01.07.10 | Received as<br>Remuneration | Acquired /<br>(disposed)<br>on market | Other<br>changes | Balance<br>30.6.11 |
|--|---------------------|-----------------------------|---------------------------------------|------------------|--------------------|
| <b>Directors</b>   |                     |                             |                                       |                  |                    |
| Mr E Cross – Non-executive Director and Chairman                         | 3,510,222           | -                           | -                                     | -                | 3,510,222          |
| Mr I Spence – Non-executive Director                                     | 221,857             | -                           | -                                     | -                | 221,857            |
| Mr S Attwell–Managing Director (from 1 July 2011 Non-Executive Director) | 30,988,940          | -                           | -                                     | -                | 30,988,940         |
| <b>Other key management personnel</b>                                    |                     |                             |                                       |                  |                    |
| Richard Pang (from 1 July 2011 appointed Managing Director)              | 1,078,003           | -                           | -                                     | 2,500,000        | 3,578,003          |
| Frank Zenke  | 496,743             | -                           | -                                     | -                | 496,743            |
| Jeremy Smith   | 1,000,002           | -                           | -                                     | -                | 1,000,002          |
| John Purnell   | -                   | -                           | -                                     | -                | -                  |
| Lee Timmins  | -                   | -                           | -                                     | -                | -                  |
| Cliff Lang (from 7 <sup>th</sup> August 2010)                            | 11,000              | -                           | 6,600                                 | -                | 17,600             |
| Tony Hanavan (resigned 6 <sup>th</sup> August 2010)                      | 25,000              | -                           | (25,000)                              | -                | -                  |
| Total  | <u>37,331,767</u>   | -                           | <u>(18,400)</u>                       | <u>2,500,000</u> | <u>39,813,367</u>  |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 9: Key management disclosures (continued)

#### (b) Equity instrument disclosures relating to key management personnel (continued)

| Year ended 30 June 2010  | Balance<br>01.07.09 | Received as<br>Remuneration | Acquired /<br>(disposed)<br>on market | Other<br>changes | Balance<br>30.6.10 |
|--|---------------------|-----------------------------|---------------------------------------|------------------|--------------------|
| <b>Directors</b>   |                     |                             |                                       |                  |                    |
| Mr E Cross – Non-executive Director and<br>Chairman (7 September 2009) | 3,510,222           | -                           | -                                     | -                | 3,510,222          |
| Mr S Attwell–Managing Director   | 30,988,940          | -                           | -                                     | -                | 30,988,940         |
| Mr I Spence – Non-executive Director                                   | 221,857             | -                           | -                                     | -                | 221,857            |
| Mr J Yeudall– Non Executive Chairman<br>(resigned 7 September 2009)    | 782,851             | -                           | -                                     | -                | 782,851            |
| <b>Other key management personnel</b>                                  |                     |                             |                                       |                  |                    |
| Richard Pang   | 828,003             | -                           | -                                     | 250,000^         | 1,078,003          |
| Frank Zenke  | 488,409             | -                           | (75,000)                              | 83,334^          | 496,743            |
| Jeremy Smith   | 833,335             | -                           | -                                     | 166,667^         | 1,000,002          |
| John Purnell   | -                   | -                           | -                                     | -                | -                  |
| Lee Timmins  | -                   | -                           | -                                     | -                | -                  |
| Tony Hanavan   | 25,000              | -                           | -                                     | -                | 25,000             |
| <b>Total</b>   | <b>37,678,617</b>   | <b>-</b>                    | <b>(75,000)</b>                       | <b>500,001</b>   | <b>38,103,618</b>  |

^ converted from shares in subsidiary pursuant to shareholder agreements

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 9: Key management disclosures (continued)

#### (b) Equity instrument disclosures relating to key management personnel (continued)

##### (ii) Option holdings:

There were no options outstanding, issued or converted during the year to 30 June 2011, therefore there were no options in the company held during the financial period by directors and other key management personnel of the Group.

##### (iii) Holdings in option shares pursuant to shareholder deeds

On 1 July 2007, the Company entered into shareholder agreements that included key management personnel by which non-participatory shares in the Company's subsidiaries were issued. These shares are, on attainment of certain vesting conditions, convertible to ordinary shares of the Company.

No shares were granted or converted in the current financial year pursuant to shareholder deeds.

The table below details shares converted in the previous financial period. These shares were issued for no consideration.

| Year ended 30 June 2010  | Balance<br>01.07.09 | Received as<br>Remuneration | Converted to<br>ISS Group<br>Shares | Expired  | Balance<br>30.6.10 |
|--|---------------------|-----------------------------|-------------------------------------|----------|--------------------|
| <b>Directors</b>   |                     |                             |                                     |          |                    |
| Mr E Cross – Non-executive<br>Chairman                                 | -                   | -                           | -                                   | -        | -                  |
| Mr S Attwell–Managing Director   | -                   | -                           | -                                   | -        | -                  |
| Mr I Spence – Non-executive Director                                   | -                   | -                           | -                                   | -        | -                  |
| Mr J Yeudall– Non Executive<br>Chairman (resigned 7 September<br>2009) | -                   | -                           | -                                   | -        | -                  |
| <b>Other key management personnel</b>                                  |                     |                             |                                     |          |                    |
| Richard Pang   | 250,000             | -                           | (250,000)                           | -        | -                  |
| Frank Zenke  | 83,334              | -                           | (83,334)                            | -        | -                  |
| Jeremy Smith   | 166,667             | -                           | (166,667)                           | -        | -                  |
| John Purnell   | -                   | -                           | -                                   | -        | -                  |
| Lee Timmins  | -                   | -                           | -                                   | -        | -                  |
| Tony Hanavan   | -                   | -                           | -                                   | -        | -                  |
| <b>Total</b>   | <b>500,001</b>      | <b>-</b>                    | <b>(500,001)</b>                    | <b>-</b> | <b>-</b>           |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 10: Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

|   | Consolidated   |                | Parent         |                |
|---|----------------|----------------|----------------|----------------|
|   | 2011<br>\$     | 2010<br>\$     | 2011<br>\$     | 2010<br>\$     |
| HLB Mann Judd   |                |                |                |                |
| — Audit and review of the financial reports and other audit work under the Corporations Act 2001. | 84,006         | 75,000         | 84,006         | 75,000         |
| Other services:   |                |                |                |                |
| — Taxation compliance services  | 82,209         | 86,322         | 64,304         | 57,406         |
| Non-HLB Mann Judd audit firms:  |                |                |                |                |
| Remuneration of the auditors of the subsidiaries for:   |                |                |                |                |
| — Auditing or reviewing the financial report  | 49,636         | 26,985         | -              | -              |
|   | <u>215,851</u> | <u>188,307</u> | <u>148,310</u> | <u>132,406</u> |

### NOTE 11: Earnings per share

|  | Consolidated       |                    |
|--|--------------------|--------------------|
|  | 2011               | 2010               |
| (a) Basic earnings per share   | 0.82 cents         | 2.70 cents         |
| Diluted earnings per share   | 0.82 cents         | 2.70 cents         |
| (b) Reconciliation of earnings used in calculating earnings per share  |                    |                    |
| Net profit attributable to members of the Parent entity  | <u>1,121,542</u>   | <u>3,639,594</u>   |
|  | Number             | Number             |
| (c) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share   | <u>136,781,258</u> | <u>134,806,955</u> |
| (d) Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | <u>136,781,258</u> | <u>134,806,955</u> |

<sup>(i)</sup> The Company had no potential ordinary shares on issue at 30 June 2011 or 30 June 2010.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

|   | Consolidated |            |
|---|--------------|------------|
|   | 2011<br>\$   | 2010<br>\$ |
| <b>NOTE 12: Cash and cash equivalents</b> |              |            |
| Cash at bank and on hand                  | 6,330,537    | 6,746,671  |

Cash at bank earns interest at floating rates based on daily deposits.

### NOTE 13: Receivables

#### Current

|                                    |           |           |
|------------------------------------|-----------|-----------|
| Trade debtors                      | 4,695,304 | 4,281,078 |
| Less: Allowance for doubtful debts | -         | (187,605) |
|                                    | 4,695,304 | 4,093,473 |
| Other receivables                  | 151,312   | 194,230   |
| Income tax refund receivable       | 218,467   | -         |
| Prepayments                        | 149,582   | 170,877   |
|                                    | 5,214,665 | 4,458,580 |

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

#### Ageing of past due but not impaired

|                   |           |           |
|-------------------|-----------|-----------|
| 30 – 60 days      | 1,057,735 | 717,737   |
| 60 – 90 days      | 247,081   | 236,686   |
| More than 90 days | 299,693   | 632,720   |
|                   | 1,604,509 | 1,587,143 |

#### Movement in allowance for doubtful debts

|  |           |           |
|--|-----------|-----------|
| Balance at the beginning of the year                     | 187,605   | 470,775   |
| Impairment losses (reversed) / recognised on receivables | (175,397) | (280,120) |
| Foreign currency exchange differences                    | (12,208)  | (3,050)   |
| Balance at the end of the year                           | -         | 187,605   |

The allowance account is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible at which point the amount considered irrecoverable and is written off against the financial asset directly.

#### Non Current

|                   |         |         |
|-------------------|---------|---------|
| Security deposits | 199,810 | 199,810 |
| Staff Loans       | 412,409 | -       |
|                   | 612,219 | 199,810 |

The security deposits above are in relation to bank guarantees provided by the Group and to which the Group has restricted access.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 14: Property, plant and equipment

|                                     | Consolidated     |                  |
|-------------------------------------|------------------|------------------|
|                                     | 2011<br>\$       | 2010<br>\$       |
| Total property, plant and equipment |                  |                  |
| At cost                             | 3,049,892        | 3,006,704        |
| Less: Accumulated depreciation      | (1,788,703)      | (1,532,521)      |
|                                     | <u>1,261,189</u> | <u>1,474,183</u> |

### Reconciliation

Reconciliation of the carrying amount of each class of property, plant and equipment is set out below:

#### *Fixtures and Equipment*

|  |                  |                  |
|--|------------------|------------------|
| Balance at the beginning of the period   | 1,429,348        | 1,627,393        |
| Additions                                | 134,821          | 233,399          |
| Disposals                                | (234)            | (13,941)         |
| Depreciation expense                     | (323,304)        | (407,413)        |
| Foreign currency exchange differences    | (13,068)         | (10,090)         |
| Carrying amount at the end of the period | <u>1,227,563</u> | <u>1,429,348</u> |

#### *Motor Vehicles*

|  |               |               |
|--|---------------|---------------|
| Balance at the beginning of the period   | 44,835        | 77,640        |
| Disposals                                | -             | (17,022)      |
| Depreciation expense                     | (11,209)      | (15,783)      |
| Carrying amount at the end of the period | <u>33,626</u> | <u>44,835</u> |

The carrying value of property, plant and equipment held under hire purchase contracts at 30 June 2011 is \$33,626 (2010: \$44,835). Leased assets are pledged as security for the related hire purchase contract (refer Note 16).

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

|  | Consolidated     |                  |
|--|------------------|------------------|
|  | 2011             | 2010             |
|  | \$               | \$               |
| <b>NOTE 15: Current liabilities - Payables</b>   |                  |                  |
| Current  |                  |                  |
| Trade creditors  | 163,113          | 130,797          |
| Other creditors and accruals   | 1,407,631        | 1,321,264        |
|  | <u>1,570,744</u> | <u>1,452,061</u> |
| Trade creditors are non-interest bearing and are normally settled on 60-day terms.   |                  |                  |
| <b>NOTE 16: Interest-bearing liabilities</b>   |                  |                  |
| Current  |                  |                  |
| Hire purchase liabilities  | <u>15,259</u>    | <u>14,214</u>    |
| Non-Current  |                  |                  |
| Hire purchase liabilities  | <u>30,984</u>    | <u>46,243</u>    |
| Hire purchase liabilities are effectively secured by way of the rights to the financed assets recognised in the financial statements which will revert to the financier in the event of default. |                  |                  |
| <b>NOTE 17: Current tax liabilities</b>  |                  |                  |
| Current tax liabilities  | <u>-</u>         | <u>441,579</u>   |
| <b>NOTE 18: Provisions</b>   |                  |                  |
| Non-Current  |                  |                  |
| Employee entitlements  | <u>867,583</u>   | <u>243,461</u>   |
| Non-Current  |                  |                  |
| Employee entitlements  | <u>43,590</u>    | <u>-</u>         |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 19: Issued Capital

|   | 2011               |                   | 2010               |                   |
|---|--------------------|-------------------|--------------------|-------------------|
|   | Number             | \$                | Number             | \$                |
| <b>(a) Issued and paid up capital</b>                             |                    |                   |                    |                   |
| Ordinary Shares   | 136,150,863        | 14,739,471        | 135,208,097        | 14,478,800        |
| <b>Movements during the period</b>                                |                    |                   |                    |                   |
| <b>Ordinary shares</b>  |                    |                   |                    |                   |
|   | <b>Number</b>      | <b>\$</b>         | <b>Number</b>      | <b>\$</b>         |
| Balance at the beginning of the financial year                    | 135,208,097        | 14,478,800        | 133,624,761        | 14,090,492        |
| Shares issued at \$0.18 per share                                 | 2,500,000          | 450,000           | -                  | -                 |
| Share buy-back programme  | (1,557,234)        | (189,329)         | -                  | -                 |
| Shares issued in terms of shareholders deeds for no consideration | -                  | -                 | 1,583,336          | -                 |
| Tax effect of share issue costs                                   | -                  | -                 | -                  | 388,308           |
| <b>Balance at end of financial year</b>                           | <b>136,150,863</b> | <b>14,739,471</b> | <b>135,208,097</b> | <b>14,478,800</b> |

#### **(b) Share Options**

There were no listed options over ordinary shares outstanding during the year or at balance date (2010: NIL listed options). During the year, no share options pursuant to shareholder deeds were converted to ordinary shares (2010: 1,583,327). At balance date there were no share options pursuant to shareholder deeds outstanding (2010: NIL).

#### **(c) Terms and conditions of ordinary shares**

Fully paid ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings each fully paid ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of share capital and issued shares do not have a par value.

#### **(d) Employee option scheme**

Information relating to the employee option scheme is set out in Note 26.

#### **(e) Dividend reinvestment plan**

The Company has adopted a dividend re-investment plan designed to provide Shareholders with an opportunity to apply any cash dividend distributed by the Company towards the subscription for new Shares; however the plan was suspended by the Company for the dividends paid during the financial year ended 30 June 2011.

Participation in the dividend re-investment plan by Shareholders is optional.

It is intended that Shares allotted under the dividend re-investment plan will be offered at a discount that is not greater than 7.5% of the weighted average market price of the Shares on ASX during the 5 business days prior to and including the closing date of an offer under the dividend re-investment plan.

No brokerage, commission, stamp duty or other transaction costs will be payable by participants in respect of any allotment of any Shares under the dividend re-investment plan.

#### **(f) Share buy-back programme**

The Company adopted a share buy-back programme during the financial year in which the Company purchased shares back from shareholders with the intention of increasing shareholder wealth. The programme ceased on 1 June 2011. During the period, the Company bought back 1,557,234 shares at an average price of \$0.1203 per share.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 20: Reserves

|                                      | Consolidated     |                  |
|--------------------------------------|------------------|------------------|
|                                      | 2011<br>\$       | 2010<br>\$       |
| <b>Reserves</b>                      |                  |                  |
| Share based payments reserve         | 2,058,208        | 2,058,208        |
| Foreign currency translation reserve | 420,813          | 313,014          |
|                                      | <u>2,479,021</u> | <u>2,371,222</u> |

The share based payments reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 26 for further details of these plans.

|  |                |                |
|--|----------------|----------------|
| Foreign currency translation reserve                                       |                |                |
| Balance 1 July   | 313,014        | 180,676        |
| Exchange differences from translation of current year financial statements | 387,312        | 132,338        |
| Foreign exchange loss reclassified to equity                               | (399,305)      | -              |
| Related tax effect   | 119,792        | -              |
| Closing balance  | <u>420,813</u> | <u>313,014</u> |

The foreign currency translation reserve is used to record exchange differences arising from translation of the financial statements of foreign subsidiaries and upon translation of net investments in foreign operations upon consolidation.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 21: Accumulated losses

|   | Consolidated       |                    |
|---|--------------------|--------------------|
|   | 2011<br>\$         | 2010<br>\$         |
| Accumulated losses at the beginning of the financial year   | (4,998,006)        | (8,637,600)        |
| Net profit attributable to the members of ISS Group Limited | 1,121,542          | 3,639,594          |
| Dividends paid  | (1,362,583)        | -                  |
| Accumulated losses at the end of the financial year         | <u>(5,239,047)</u> | <u>(4,998,006)</u> |

### NOTE 22: Cash flow information

#### Reconciliation of Profit to net cash generated by operating activities for the period after income tax

|  |                  |                  |
|--|------------------|------------------|
| Profit from ordinary activities after income tax       | 1,121,542        | 3,639,594        |
| Non-cash flows in profit from ordinary activities:     |                  |                  |
| Depreciation   | 334,513          | 423,196          |
| Doubtful debts   | (175,397)        | (280,120)        |
| Loss on sale of assets                                 | 242              | 16,396           |
| Foreign exchange differences                           | 713,190          | 305,049          |
| Changes in operating assets and liabilities:           |                  |                  |
| (Increase)/decrease in receivables                     | (580,688)        | (1,476,987)      |
| Increase/(decrease) in tax provisions                  | (360,244)        | (370,810)        |
| Increase/(decrease) in employee benefits provision     | 771,712          | 12,671           |
| Increase/(decrease) in creditors and borrowings        | 14,683           | (32,972)         |
| Net cash generated by / (used in) operating activities | <u>1,839,553</u> | <u>2,236,017</u> |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 23: Related party transactions

The consolidated financial statements include the financial statements of ISS Group Limited and the subsidiaries listed in the following table.

| Name of entity           | Country of incorporation | % Equity Interest |      | Investment (\$) |           |
|--------------------------|--------------------------|-------------------|------|-----------------|-----------|
|                          |                          | 2011              | 2010 | 2011            | 2010      |
| ISS Australia Pty Ltd    | Australia                | 100%              | 100% | 2,877,339       | 2,987,917 |
| ISS Group (Asia) Pte Ltd | Singapore                | 100%              | 100% | 160,000         | 160,000   |
| ISS Group Europe Limited | United Kingdom           | 100%              | 100% | 392             | 392       |
| ISS GA Inc               | United States            | 100%              | 100% | 2,084           | 2,084     |
|                          |                          |                   |      | 3,039,815       | 3,150,393 |

ISS Group Limited (the company) is the ultimate Australian parent entity and the ultimate parent of the Group.

#### *Transactions with Related Parties in the Wholly Owned Group*

During the year the company has provided interest free loans to ISS Australia Pty Ltd totalling \$3,358,026 (2010: \$5,833,622 with no fixed repayment date).

During the year, the company received intercompany distributions of \$619,892 tax credits (2010: \$172,053) and had cost recoveries of \$439,723 (2010: \$440,192) from its subsidiaries. Intercompany dividends received during the year to 30 June 2011 were \$1,362,583 (2010: NIL).

#### *Key management personnel Remuneration*

Details of key management personnel remuneration are set out in the Directors' Report under the section titled 'Remuneration Report'.

#### *Loans with key management personnel*

The Company issued 2,500,000 fully paid ordinary shares at 18 cents each to the CEO of ISS Group, Mr Richard Pang. ISS Asia Pte Ltd has granted Mr Pang a loan, denominated and repayable in Singapore Dollars (SGD) equivalent to \$450,000 Australian Dollars (AUD), to acquire the shares on commercial terms. The loan term is for five years at a commercial interest rate and is secured by a personal guarantee from Mr Pang. Interest has been repaid monthly.

The following table discloses the opening and closing balances, interest charged and the highest balance owing during the year. The loan balances are converted to AUD in accordance with Note 1(e)(iii).

| Date             | Description                      | Singapore \$ | Exchange rate | Australian \$ |
|------------------|----------------------------------|--------------|---------------|---------------|
| 9 September 2010 | Loan Issued                      | 544,545      | 1.2101        | 450,000       |
| 31 October 2010  | Highest balance                  | 546,690      | 1.2678        | 431,212       |
| 30 June 2011     | Closing balance                  | 544,545      | 1.3204        | 412,409       |
| 30 June 2011     | Interest charged to 30 June 2011 | 7,736        | 1.2771        | 6,057         |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 24: Financial Instruments

#### (a) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group's overall strategy remains unchanged from 2010. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to shareholders.

|  | Consolidated |           |
|--|--------------|-----------|
|  | 2011         | 2010      |
|  | \$           | \$        |
| <b>(b) Categories of financial instruments</b> |              |           |
| <b>Financial assets</b>                        |              |           |
| Loans and receivables                          | 5,826,884    | 4,658,390 |
| Cash and cash equivalents                      | 6,330,537    | 6,746,671 |
| <b>Financial liabilities</b>                   |              |           |
| Trade and other payables                       | 1,570,744    | 1,452,061 |
| Interest bearing liabilities                   | 46,243       | 60,457    |

There are no financial instruments accounted for at fair value through profit and loss.

#### (c) Financial risk management objectives

The Group is exposed to market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor these risks and limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities.

The Group has not used any derivative financial instruments to hedge exposure to risks and aim to minimise the exposure by monitoring internal controls relating to financial instruments.

#### (d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographical region was:

|           | 2011      | 2010      |
|-----------|-----------|-----------|
|           | \$        | \$        |
| Australia | 2,602,861 | 2,829,623 |
| Singapore | 1,564,843 | 898,869   |
| Europe    | 481,510   | 393,236   |
| USA       | 46,090    | 159,350   |
| Total     | 4,695,304 | 4,281,078 |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 24: Financial Instruments (continued)

#### (e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

|                   | Liabilities |         | Assets    |           |
|-------------------|-------------|---------|-----------|-----------|
|                   | 2011        | 2010    | 2011      | 2010      |
|                   | \$          | \$      | \$        | \$        |
| Singapore Dollars | 629,462     | 501,079 | 637,797   | 473,066   |
| British Pound     | 195,164     | 243,927 | 510,248   | 1,246,338 |
| US Dollars        | 63,386      | 9,981   | 3,794,353 | 2,253,882 |

The following significant exchange rates applied during the year:

|                   | Average Rate |        | Reporting date spot rate |        |
|-------------------|--------------|--------|--------------------------|--------|
|                   | 2011         | 2010   | 2011                     | 2010   |
| Singapore Dollars | 1.2771       | 1.2404 | 1.3204                   | 1.1940 |
| British Pound     | 0.6208       | 0.5585 | 0.6667                   | 0.5666 |
| US Dollars        | 0.9981       | 0.8821 | 1.0739                   | 0.8523 |

#### Foreign currency sensitivity analysis

The Group is exposed to currency fluctuations of the currencies as listed in the table below.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on profit and other equity. This analysis assumes all other variables, in particular interest rates, remain constant.

|                   | Profit or Loss |           | Equity    |           |
|-------------------|----------------|-----------|-----------|-----------|
|                   | 2011           | 2010      | 2011      | 2010      |
|                   | \$             | \$        | \$        | \$        |
| Singapore Dollars | -              | -         | (758)     | 2,546     |
| British Pound     | -              | -         | (28,644)  | (91,128)  |
| US Dollars        | (329,777)      | (185,565) | (339,178) | (203,991) |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 24: Financial Instruments (continued)

#### (f) Interest rate risk management

The company and Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity and interest rate tables below.

#### Interest rate risk sensitivity analysis

##### *Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, therefore a change in interest rates at the reporting date would not affect the profit and loss or equity.

##### *Cash flow sensitivity analysis for variable rate instruments*

A change of 75 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit and loss as shown in the table below. This analysis assumes that all other variables remain constant and assumes tax effect of 30% on interest receivable.

|                           | Profit or loss |           | Equity    |           |
|---------------------------|----------------|-----------|-----------|-----------|
|                           | 75 pb inc      | 75 pb dec | 75 pb inc | 75 pb dec |
| 30 June 2011              | \$             | \$        | \$        | \$        |
| Variable rate instruments | 13,813         | (4,462)   | 13,813    | (4,462)   |
| 30 June 2010              |                |           |           |           |
| Variable rate instruments | 10,138         | (17,987)  | 10,138    | (17,987)  |

#### (g) Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's contractual maturities of financial liabilities are detailed in the tables below.

#### Liquidity and interest rate risk tables

The following tables detail the company's and the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. These are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

#### Consolidated

|                              | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Less than<br>1 month<br>\$ | 1 – 3<br>Months<br>\$ | 3 months –<br>1 year<br>\$ | 1 – 5<br>years<br>\$ | 5+<br>years<br>\$ |
|------------------------------|---|----------------------------|-----------------------|----------------------------|----------------------|-------------------|
| <b>2011</b>                  |   |                            |                       |                            |                      |                   |
| <b>Financial assets</b>      |   |                            |                       |                            |                      |                   |
| Loans and receivables        | -   | 3,090,794                  | 1,304,816             | 819,053                    | 612,219              | -                 |
| Cash and cash equivalents    | 2.85%   | 3,338,502                  | 3,043,570             | 11,989                     | -                    | -                 |
| <b>Financial liabilities</b> |   |                            |                       |                            |                      |                   |
| Trade and other payables     | -   | (177,522)                  | (221,741)             | (1,171,480)                | -                    | -                 |
| Interest bearing liabilities | 7.20%   | (1,505)                    | (4,515)               | (12,040)                   | (31,968)             | -                 |
|                              |   | <u>6,250,269</u>           | <u>4,122,130</u>      | <u>(352,478)</u>           | <u>580,251</u>       |                   |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 24: Financial Instruments (continued)

|                              | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Less than<br>1 month<br>\$ | 1 – 3<br>Months<br>\$ | 3 months –<br>1 year<br>\$ | 1 – 5<br>years<br>\$ | 5+<br>years<br>\$ |
|------------------------------|---|----------------------------|-----------------------|----------------------------|----------------------|-------------------|
| <b>2010</b>                  |   |                            |                       |                            |                      |                   |
| <b>Financial assets</b>      |   |                            |                       |                            |                      |                   |
| Loans and receivables        | -   | 2,506,330                  | 954,423               | 997,827                    | 199,810              | -                 |
| Cash and cash equivalents    | 3.61%   | 2,846,671                  | 4,031,141             | -                          | -                    | -                 |
| <b>Financial liabilities</b> |   |                            |                       |                            |                      |                   |
| Trade and other payables     | -   | (159,277)                  | (1,011,884)           | (292,310)                  | -                    | -                 |
| Interest bearing liabilities | 6.9%  | (1,505)                    | (4,195)               | (12,361)                   | (50,028)             | -                 |
|                              |   | <u>5,192,219</u>           | <u>3,969,485</u>      | <u>693,156</u>             | <u>149,782</u>       | <u>-</u>          |

#### (h) Fair value of financial instruments

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the flowing fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Group's financial assets and financial liabilities as listed in the tables above are recorded at amortised cost. The carrying amounts of financial assets and liabilities as disclosed equate their estimated net fair value.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 25: Capital, hire purchase and leasing commitments

#### Finance lease and hire purchase commitments - Group as lessee

The Group has hire purchase contracts for motor vehicles. These contracts have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the hire purchase contract.

Future minimum lease payments under hire purchase contracts together with the present value of the net minimum lease payments are as follows:

|   | Consolidated |            |
|---|--------------|------------|
|   | 2011<br>\$   | 2010<br>\$ |
| Payable                                     |              |            |
| Within one year                             | 18,060       | 18,060     |
| After one year but not more than five years | 31,968       | 50,028     |
| Total minimum hire purchase payments        | 50,028       | 68,088     |
| Less amounts representing finance charges   | (3,785)      | (7,631)    |
| Total hire purchase liability               | 46,243       | 60,457     |

Commitments for minimum payments in relation to non-cancellable operating leases for the office premises, staff accommodation and office equipment are payable as follows:

|   |           |           |
|---|-----------|-----------|
| Payable                                     |           |           |
| Within one year                             | 1,318,151 | 1,177,842 |
| After one year but not more than five years | 3,046,416 | 4,140,115 |
| More than five years                        | -         | -         |
|   | 4,364,567 | 5,317,957 |

There are lease renewal options on offices occupied by the Group, the renewal terms range between 12 months to 3 years.

The leases contain restrictions regarding assignment, subletting or mortgages over the lease of premises occupied by the Group.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 26: Employee benefits**

| <b>Consolidated</b> |             |
|---------------------|-------------|
| <b>2011</b>         | <b>2010</b> |
| <b>\$</b>           | <b>\$</b>   |

**Remuneration commitments**

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

|               |   |         |
|---------------|---|---------|
| Within 1 year | - | 340,000 |
|---------------|---|---------|

Amounts disclosed as remuneration commitments include commitments arising from the service contract of the managing director that is not recognised as a liability and not included in the directors' remuneration disclosure in the directors' report.

|  | <b>No.</b> | <b>No.</b> |
|--|------------|------------|
|--|------------|------------|

|                                     |     |    |
|-------------------------------------|-----|----|
| Number of employees at balance date | 111 | 95 |
|-------------------------------------|-----|----|

**Employee Option Scheme**

The Company adopted an incentive option scheme on 23 September 2004. The Scheme is designed to provide a long term incentive for employees of the Company (or its subsidiaries) by providing them with an opportunity to participate in the future growth of the Company.

Subject to the Corporations Act and the Listing Rules, the Directors may issue invitations to eligible participants inviting them to apply for the issue of options under the Scheme on such terms as the Directors think fit. Invitations must not be issued under the Scheme if the number of Shares that would be issued pursuant to the exercise of all options the subject of the proposed invitation (when aggregated with the number of Shares that have been issued pursuant to all employee share schemes established by the Company during the previous 5 years) exceeds 5% of the total number of issued Shares as at the date its proposed invitation is considered.

The Directors also have the power to determine appropriate procedures for the administration of the Scheme, including the right to resolve questions of fact or interpretation arising in connection with the Scheme and the right to amend the Scheme from time to time.

Options are granted under the plan for no consideration.

Options granted under the plan carry no dividend or voting rights.

There were no options granted, exercised or outstanding for the year to 30 June 2011.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 26: Employee benefits (cont.)

#### Option shares pursuant to shareholder deeds

There were no shares granted and/ or converted in the current financial year pursuant to shareholder deeds. The table below indicates the number of shares that were converted during the previous financial year.

|  | 2011<br>No. | 2010<br>No. |
|--|-------------|-------------|
| Outstanding at the beginning of the year | -           | 1,583,327   |
| Granted during the year                  | -           | -           |
| Converted during the year                | -           | (1,583,327) |
| Forfeited – hurdles not met              | -           | -           |
| Outstanding at the end of the year       | -           | -           |
| Convertible at the end of the year       | -           | -           |

#### Expenses arising from share-based payment transactions

There were no expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 27: Parent Entity disclosures

#### *Financial Position*

#### **Assets**

|                    | 30 June 2011     | 30 June 2010      |
|--------------------|------------------|-------------------|
| Current assets     | 3,046,906        | 782,158           |
| Non-current assets | 6,866,734        | 9,295,128         |
| Total assets       | <u>9,913,640</u> | <u>10,077,286</u> |

#### **Liabilities**

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Current liabilities     | (110,626)        | (567,302)        |
| Non-current liabilities | -                | -                |
| Total liabilities       | <u>(110,626)</u> | <u>(567,302)</u> |

#### Net Assets

|                  |                  |
|------------------|------------------|
| <u>9,803,014</u> | <u>9,509,984</u> |
|------------------|------------------|

#### **Equity**

|                              |                  |                  |
|------------------------------|------------------|------------------|
| Issued capital               | 14,739,471       | 14,478,800       |
| Accumulated losses           | (6,994,665)      | (7,027,024)      |
| Reserves                     |                  |                  |
| Share-based payments reserve | 2,058,208        | 2,058,208        |
| Total equity                 | <u>9,803,014</u> | <u>9,509,984</u> |

#### *Financial Performance*

|                              |                  |                |
|------------------------------|------------------|----------------|
| Profit / (loss) for the year | 1,394,942        | 630,233        |
| Other comprehensive income   | -                | -              |
| Total Comprehensive income   | <u>1,394,942</u> | <u>630,233</u> |

#### **Contingent liabilities of the parent entity**

There are no contingent liabilities that have not been disclosed elsewhere in this report, for the parent entity, that have not been provided for.

For details on commitments, see note 25

### NOTE 28: Events subsequent to reporting date

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

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## DIRECTORS' DECLARATION

1. In the opinion of the directors of ISS Group Limited (the 'Company'):
  - a. the accompanying financial statements, notes and the additional are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year then ended; and
    - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
  - b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
  - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board



Mr Evan Cross  
Director

Place: Perth, WA

Dated: 6<sup>th</sup> September 2011

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## INDEPENDENT AUDITOR'S REPORT

To the members of ISS Group Limited

### Report on the Financial Report

We have audited the accompanying financial report of ISS Group Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Accountants | Business and Financial Advisers

**Matters relating to the electronic presentation of the audited financial report**

This auditor's report relates to the financial report and remuneration report of ISS Group Limited for the financial year ended 30 June 2011 included on ISS Group Limited's website. The company's directors are responsible for the integrity of the ISS Group Limited website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report identified in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**Auditor's Opinion**

In our opinion:

- (a) the financial report of ISS Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion, the Remuneration Report of ISS Group Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

*HLB Mann Judd*

**HLB MANN JUDD**  
**Chartered Accountants**

A handwritten signature in blue ink, appearing to read 'M R W OHM'.

**M R W OHM**  
**Partner**

**Perth, Western Australia**  
**6 September 2011**

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## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is disclosed in accordance with Section 4.10 of the Australian Stock Exchange Ltd Listing rules in respect of listed public companies only.

The following information is supplied as at 5 September 2011.

### 1. Analysis of Shareholdings

#### a. Distribution of Shareholders (ASX Code: ISS)

| Number of Ordinary Shares Held | Ordinary Shares   |                    |
|--------------------------------|-------------------|--------------------|
|                                | Number of holders | Number of shares   |
| 1 – 1,000                      | 63                | 11,273             |
| 1,001 – 5,000                  | 115               | 382,773            |
| 5,001 – 10,000                 | 129               | 1,090,708          |
| 10,001 – 100,000               | 525               | 21,527,629         |
| 100,001 – and over             | 196               | 113,138,480        |
|                                | <u>1,028</u>      | <u>136,150,863</u> |

There were [ ] holders of less than a marketable parcel of ordinary shares.

#### b. Distribution of Optionholders (ASX Code: ISSO)

| Number of Options Held | Options           |                  |
|------------------------|-------------------|------------------|
|                        | Number of holders | Number of shares |
| 1 – 1,000              | -                 | -                |
| 1,001 – 5,000          | -                 | -                |
| 5,001 – 10,000         | -                 | -                |
| 10,001 – 100,000       | -                 | -                |
| 100,001 – and over     | -                 | -                |
|                        | <u>-</u>          | <u>-</u>         |

### 2. Voting Rights

The voting rights attached to each class of equity security are as follows:

#### Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

#### Options

- No voting rights.

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## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

### 3. Twenty Largest Shareholders of quoted Ordinary Shares

|     | Name   | Number of Ordinary Shares | Percentage of Total |
|-----|--|---------------------------|---------------------|
| 1.  | Shane Patrick Attwell                            | 12,369,624                | 9.085               |
| 2.  | Robyn Susanne Johnston                           | 12,369,316                | 9.085               |
| 3.  | Robyn Susanne Johnston (The Patacait Family A/C) | 6,250,000                 | 4.590               |
| 4.  | Equitas Nominees Pty Ltd                         | 4,253,179                 | 3.124               |
| 5.  | Microequities Asset Management Pty Ltd           | 4,020,668                 | 2.953               |
| 6.  | Mr Richard Pang                                  | 3,578,003                 | 2.628               |
| 7.  | Mr Grant Eggleton                                | 2,598,950                 | 1.909               |
| 8.  | Mr Graeme Edmund Moir                            | 2,500,000                 | 1.836               |
| 9.  | Exwere Investments Pty Ltd                       | 2,212,760                 | 1.625               |
| 10. | Sante Holdings Pty Ltd                           | 2,156,314                 | 1.584               |
| 11. | UBS Nominees Pty Ltd                             | 2,053,800                 | 1.508               |
| 12. | Abe Shasha Consulting Inc                        | 2,000,001                 | 1.469               |
| 13. | T R B Management Pty Ltd                         | 1,800,000                 | 1.322               |
| 14. | Mr Christopher James Kincaid                     | 1,800,000                 | 1.322               |
| 15. | Wal Assets Pty Ltd                               | 1,400,000                 | 1.028               |
| 16. | Mr Paul Mathew Brown                             | 1,350,000                 | 0.992               |
| 17. | Ross Asset Management Ltd                        | 1,235,548                 | 0.907               |
| 18. | Mr Kevin Harvey Payne & Mrs Ruth Linda Payne     | 1,178,472                 | 0.866               |
| 19. | Yarandi Investments Pty Ltd                      | 1,160,000                 | 0.852               |
| 20. | Manhattan Investments Pty Ltd                    | 1,075,472                 | 0.790               |
|     |  | 67,362,107                | 49.476              |

### 4. Twenty Largest Optionholders of quoted Options

There are no quoted options.

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## **ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

### **5. Escrowed and unquoted Securities**

There are no escrowed or unquoted securities.

### **6. Statement in accordance with ASX Listing Rule 4.10.19**

The Company believes that for the year ended 30 June 2011, it used its cash and assets in a form readily convertible to cash, that it held at the time of admission in a way consistent with its business objectives.

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